

البنك الأهلي المتحد



# ahli united bank

OFFEREE BOARD CIRCULAR DATED 16 March 2020

**THIS OFFEREE BOARD CIRCULAR (“CIRCULAR”) IS IMPORTANT AS IT CONTAINS THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C. (“AUB” OR THE “OFFEREE”) AND THE ADVICE OF THE PROFESSIONAL INDEPENDENT ADVISER. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.**

**Prior to making a decision, each recipient of this Circular is responsible for obtaining independent advice for considering the appropriateness of the Offer with regard to their respective objectives, financial situation and investment needs. If you are in doubt about any aspect of this Circular, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant, or other professional advisers.**

If you have sold or transferred all your shares in AUB, you should immediately forward this Circular together with the Offer Document to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

البنك الأهلي المتحد



## ahli united bank

**AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain under Commercial Registration No.: 46348)

**CIRCULAR TO SHAREHOLDERS OF AHLI UNITED BANK B.S.C.**

in relation to the

**VOLUNTARY CONDITIONAL OFFER TO ACQUIRE 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF AHLI UNITED BANK B.S.C. BY WAY OF A SHARE SWAP AT AN EXCHANGE RATIO OF 1 NEW KFH SHARE FOR EACH 2.325581 AUB SHARES**

BY

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**KUWAIT FINANCE HOUSE K.S.C.P. (“KFH”)**

**بيت التمويل الكويتي**  
**Kuwait Finance House**



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**PROFESSIONAL INDEPENDENT ADVISER**



Citigroup Global Markets Limited

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**LEAD INTERNATIONAL LEGAL ADVISOR TO AHLI UNITED BANK B.S.C.**



Linklaters LLP

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**ISSUE ADVISOR**



KPMG Fakhro, Bahrain

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**LEGAL ADVISOR TO AHLI UNITED BANK B.S.C. AS TO BAHRAINI AND KUWAITI LAW**



ASAR - Al Ruwayeh & Partners

**DISCLAIMER STATEMENT**

THE CENTRAL BANK OF BAHRAIN, THE BAHRAIN BOURSE AND THE MINISTRY OF INDUSTRY, COMMERCE AND TOURISM, IN THE KINGDOM OF BAHRAIN, ASSUME NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS CIRCULAR AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM THE RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS CIRCULAR.

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**AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain  
under Commercial Registration No.: 46348)

**OFFEREE BOARD CIRCULAR**

## **DIRECTORS' DECLARATION**

**THE DIRECTORS OF AUB ISSUING THIS CIRCULAR, WHOSE NAMES APPEAR IN THIS CIRCULAR, JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF INFORMATION CONTAINED IN THIS CIRCULAR INCLUDING THE APPENDICES. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSIONS LIKELY TO AFFECT THE IMPORTANCE AND COMPLETENESS OF THIS CIRCULAR.**

### **STATEMENT FROM THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.**

This Circular has been prepared by Ahli United Bank B.S.C. to provide information to its shareholders in connection with the Offer made by Kuwait Finance House K.S.C.P. to acquire 100% of the issued and paid up ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 1 New KFH Share for each 2.325581 AUB Shares.

**IN ACCORDANCE WITH THE TAKEOVERS, MERGERS AND ACQUISITIONS MODULE OF THE CENTRAL BANK OF BAHRAIN RULEBOOK VOLUME 6, THE RECOMMENDATIONS TO THE SHAREHOLDERS IN RELATION TO THE OFFER CONTAINED IN THIS CIRCULAR HAVE BEEN MADE BY THE BOARD OF DIRECTORS, WHOSE MEMBERS HAVE NO DIRECT OR INDIRECT PERSONAL INTEREST WHICH WOULD PREVENT ANY OF THEM FROM PROVIDING THIS CIRCULAR, NOTING THE DISCLOSURES IN PARAGRAPH 6 OF APPENDIX A.**

This Circular has been filed with the Central Bank of Bahrain in the Kingdom of Bahrain, in accordance with the requirements of Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisitions Module.

The information in this Circular regarding the Offeree has been provided by the Offeree. The Professional Independent Adviser, the Legal Advisors and the Issue Advisor make no representation or warranty, express or implied, as to the accuracy, completeness or verification of such information, and nothing contained in this Circular is, or shall be relied upon as, a promise, representation, or recommendation to any recipient of this Circular, whether as to the past or the future, in connection with the Offeree or this transaction, by the Professional Independent Adviser, the Legal Advisors and the Issue Advisor.

The Professional Independent Adviser is acting exclusively for the Offeree as financial adviser and for no one else in connection with this transaction, and will not regard any other person (whether or not a recipient of this Circular) as a client in relation to this transaction and will not be responsible to anyone other than the Offeree for providing the protections afforded to its clients nor for providing advice in relation to this transaction or any other matter referred to in this Circular. Neither the Professional Independent Adviser nor any of its subsidiaries, branches or affiliates, nor any of their respective directors or employees owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise), and accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability, to any person who is not a client of the Professional Independent Adviser in connection with the contents of this Circular or any other matter referred to in this Circular.

The information in this Circular pertaining to KFH has been prepared in good faith based on publicly available information. Consequently, the Offeree, the Professional Independent Adviser, the Legal Advisors and the Issue Advisor do not accept any liability for the accuracy, completeness or verification of the information in this Circular regarding KFH. The Board of Directors of Ahli United Bank B.S.C. hereby declare that, having taken

all reasonable care to ensure that such is the case, the information contained in this Circular is, to the best of its knowledge, in accordance with the facts and contains no material omissions.

**Board of Directors of Ahli United Bank B.S.C.:**

<b>Name of Director</b>	<b>Title</b>
Mr. Meshal AbdulAziz Alothman	Chairman
Mr. Mohammad Jassim Al-Marzooq	Deputy Chairman
Mr. Mohammad Fouad Al-Ghanim	Board Member
Mr. Abdulghani M.S.Y Behbehani	Board Member
Mr. Ahmad Ghazi Al-Abduljalil	Board Member
Mr. Abdullah Al Mudhaf	Board Member
Mr. Jamal Abdel Razzaq Al-Naif	Board Member
Mr. Mahmoud Difrawy	Board Member
Mr. Khalid Mohamed Najibi	Board Member
Mr. Adel A. El-Labban	Group CEO & Managing Director

On behalf of the Board of Directors



Chairman of the Board of Directors

16 March 2020

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## I. CORPORATE INFORMATION

<p><b>Board of Directors</b></p>	<p>Mr. Meshal AbdulAziz Alothman          Mr. Mohammad Jassim Al-Marzooq          Mr. Mohammad Fouad Al-Ghanim          Mr. Abdulghani M.S.Y Behbehani          Mr. Ahmad Ghazi Al-Abduljalil          Mr. Abdullah Al Mudhaf          Mr. Jamal Abdel Razzaq Al-Naif          Mr. Mahmoud Difrawy          Mr. Khalid Mohamed Najibi          Mr. Adel A. El-Labban</p>
<p><b>Sharia'a Supervisory Board</b></p>	<p>Prof. Ali Muhyealdin Al-Quradaghi          Dr. Fareed Mohammed Hadi          Prof. Abdul Aziz Al-Qassar</p>
<p><b>Executive Management</b></p>	<p>Mr. Adel A. El-Labban – Group CEO &amp; Managing Director          Mr. Sanjeev Bajjal – Deputy Group CEO – Finance &amp; Strategic Development          Mr. Keith Gale – Deputy Group CEO – Risk, Legal &amp; Compliance          Mr. Suvrat Saigal – Deputy Group CEO – Retail Banking          Mr. Shafqat Anwar – Deputy Group CEO – Operations &amp; Technology          Mr. David O'Loan – Deputy Group CEO – Treasury &amp; Investments          Mr. Mark Hirst – Deputy Group CEO – Private Banking &amp; Wealth Management          Mr. Robert Jones – Group Head – Audit          Mrs. Iman Al-Madani – Group Head – Human Resources &amp; Development          Mr. Sami Tamim – Chief Executive Officer – Ahli United Bank (UK) PLC, UK          Ms. Jehad Al-Humaidhi – Acting, Chief Executive Officer – Ahli United Bank K.S.C.P., Kuwait          Mrs. Hala Sadek – Acting, Chief Executive Officer – Ahli United Bank (Egypt) S.A.E., Egypt          Mr. Nouri Aldubaysi – Chief Executive Officer – Commercial Bank of Iraq, Iraq          Mr. Ayman El Gammal – Chief Executive Officer – United Bank for Commerce &amp; Investment S.A.L., Libya          Mr. CB Ganesh – Chief Executive Officer – Ahli United Bank B.S.C. (DIFC Branch)</p>

	Mr. Said Hathout – Chief Executive Officer – Al Hilal Life & Al Hilal Takaful
<b>Registered Office</b>	Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain
<b>Share Registrar</b>	Bahrain Clear B.S.C.(c)
<b>Receiving Agents</b>	For AUB Shareholders of AUB BK Shares, Kuwait Clearing Company K.S.C.  For AUB Shareholders of AUB BB Shares, Bahrain Clear B.S.C.(c) and/or SICO B.S.C.(c)  For AUB Shareholders resident outside of Kuwait and Bahrain, Kuwait Clearing Company K.S.C., Bahrain Clear B.S.C.(c) and/or SICO B.S.C.(c)
<b>External Auditor of the Offeree</b>	Ernst & Young
<b>Issue Advisor</b>	KPMG Fakhro, Bahrain
<b>Lead Legal Advisor to the Offeree in relation to the Offer</b>	Linklaters LLP
<b>Legal Advisor to the Offeree in respect of the laws of Bahrain and Kuwait in relation to the Offer</b>	ASAR - Al Ruwayeh & Partners
<b>Professional Independent Adviser to the Board of Directors in relation to the Offer</b>	Citigroup Global Markets Limited



## II. DEFINITIONS

Words and expressions not otherwise defined in this Circular have, unless the context otherwise requires, the following meanings:

<b>Acceptance</b>	The acceptance of the Offer by an AUB Shareholder by signing the Acceptance and Transfer Form and submitting the same to any of the Receiving Agents within the Offer Period as per the procedures prescribed in the Offer Document
<b>Acceptance and Transfer Form</b>	The form prepared by the Receiving Agents and available: (i) for AUB Shareholders of AUB BB Shares, from AUB and/or the Bahrain Receiving Agent; and (ii) for AUB Shareholders of AUB BK Shares, electronically at the offices of the Kuwait Receiving Agent, to accept the Offer
<b>Adviser's Opinion or Professional Independent Adviser's Opinion</b>	The fairness opinion dated 10 March 2020 issued by the Professional Independent Adviser to the Board, set out in section VI of this Circular
<b>AUB or Offeree</b>	Ahli United Bank B.S.C., commercial registration number 46348 licensed and regulated by the CBB as a conventional retail bank and listed on the BB and BK
<b>AUB BB Shares</b>	AUB Shares that are listed on the BB, including AUB Shares held in physical form
<b>AUB BK Shares</b>	AUB Shares that are listed on the BK
<b>AUB EGM</b>	Extraordinary General Meeting of the AUB Shareholders, convened to approve, amongst other things, and subject to any legal and regulatory requirements, converting the AUB business in the Kingdom of Bahrain to Sharia'a compliant
<b>AUB Shareholder</b>	A holder of AUB Shares
<b>AUB Shares</b>	8,774,444,281 issued shares of AUB with a nominal value of USD0.25 per share, and any AUB shares that are issued and paid as bonus shares after the date of the Offer Document, but before the Effective Date
<b>Bahrain</b>	Kingdom of Bahrain
<b>BC or Bahrain Clear</b>	Bahrain Clear B.S.C.(c)
<b>Bahrain Receiving Agent</b>	Bahrain Clear and/or SICO, being the entities appointed by the Offeror which are authorised to receive Acceptance and Transfer Forms in accordance with the Offer Document for AUB Shareholders of AUB BB Shares and for AUB Shareholders resident outside of Kuwait and Bahrain
<b>BB</b>	Bahrain Bourse
<b>BK</b>	Boursa Kuwait
<b>Board or AUB Board</b>	The Board of Directors of AUB

<b>Business Days</b>	A day (other than a Friday or Saturday) on which banks are open for general business in Kuwait City, Kuwait and the Kingdom of Bahrain
<b>CBB</b>	The Central Bank of Bahrain
<b>CBB Rulebook</b>	The Central Bank of Bahrain's rulebook issued and in force in the Kingdom of Bahrain
<b>CBK</b>	The Central Bank of Kuwait
<b>Certified Copy</b>	A copy of a document certified as a true copy of the original from any of the following from a GCC or FATF member state: (a) a lawyer; (b) a notary; (c) a chartered/certified accountant; (d) an official of a government ministry; (e) an official of an embassy or consulate; or (f) an official of the Offeror, Offeree, or another licensed financial institution
<b>CMA</b>	The Capital Markets Authority in the State of Kuwait
<b>CMSD</b>	The CBB's Capital Markets Supervision Directorate
<b>Circular</b>	This circular to AUB Shareholders in relation to the Offer enclosing, <i>inter-alia</i> , the recommendations of the Board and the Adviser's Opinion
<b>Commercial Companies Law</b>	Decree Law No. 21 of the year 2001 promulgating the Commercial Companies Law in the Kingdom of Bahrain, as amended from time to time
<b>Conditions Precedent</b>	The conditions set out in section 5.7 ( <i>Conditions Precedent to the Offer</i> ) of the Offer Document and as replicated in paragraph 2.6 of Part IV of this Circular
<b>CSD</b>	The Central Securities Depository at Bahrain Clear
<b>Demat</b>	Dematerialised
<b>Director</b>	A person holding office as a director of AUB as at the Latest Practicable Date
<b>Effective Date</b>	If the Offer is successful, the date on which New KFH Shares are successfully issued as fully paid up to the AUB Shareholders who appear on the shareholder register of AUB as at the Record Date in accordance with the Exchange Ratio
<b>Exchange Ratio</b>	The exchange ratio of 1 New KFH Share for each 2.325581 AUB Shares, provided that the Offer becomes unconditional after the fulfilment or waiver (where applicable) of the Conditions Precedent
<b>FATF</b>	The Financial Action Task Force
<b>Final Offer Closing Date</b>	The Initial Offer Closing Date, or the date falling not less than the 15 <sup>th</sup> calendar day from the date of announcement of the Offer having been revised or become unconditional as to Requisite Acceptances, whichever is later, being 12 May 2020 for the purposes of this Circular

<b>Firm Intention</b>	The firm intention to make an Offer issued by KFH to the Board on 5 February 2020
<b>GCC</b>	Gulf Cooperation Council, comprising the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates
<b>Implementation Agreement</b>	The agreement dated 15 March 2020 between KFH and AUB setting out the parties' rights and obligations in respect of, and the process for, the implementation of, and certain other matters in connection with, the Offer
<b>IN</b>	A unique number issued by BC for any investor who opens a securities depository account at BC
<b>Initial Announcement Date</b>	22 July 2018, being the date on which the signing of the MOU was announced
<b>Initial Approval</b>	The CBB conditional approval, dated 31 October 2019, to KFH pertaining to undertaking the Offer, as per the Offer Document
<b>Initial Offer Closing Date</b>	The date falling on the 21 <sup>st</sup> calendar day from the Offer Opening Date, being the last date, subject to the Final Offer Closing Date and any extensions as may be permissible under the TMA, for receiving the completed Acceptance and Transfer Forms, being 15 April 2020 for the purposes of this Circular
<b>Issue Advisor</b>	KPMG Fakhro, being the issue advisor appointed by AUB to assist in the TMA-related process
<b>KCC</b>	The Kuwait Clearing Company K.S.C.
<b>KFH or Offeror</b>	Kuwait Finance House K.S.C.P., a public joint stock company incorporated in the State of Kuwait and registered under commercial registration number 26066
<b>KFH Board</b>	The Board of Directors of KFH
<b>KFH Firm Intention Date</b>	The date on which the Firm Intention was sent by KFH, being 5 February 2020
<b>KFH Shares</b>	6,976,489,202 issued and paid up shares of KFH with a nominal value of KWD0.100 each in the capital of KFH, inclusive of any KFH shares that are issued pursuant to the Offer
<b>Kuwait Receiving Agent</b>	The KCC, being the entity appointed by the Offeror which is authorised to receive Acceptance and Transfer Forms in accordance with the Offer Document for AUB Shareholders of AUB BK Shares and for AUB Shareholders resident outside of Kuwait and Bahrain
<b>KWD</b>	Kuwaiti Dinar, the lawful currency in the State of Kuwait
<b>Latest Practicable Date</b>	10 March 2020, being the latest practicable date prior to the printing of this Circular on which certain factual information (such as closing prices and shareholdings) is provided in this Circular

<b>Last Trading Date</b>	The date falling one (1) Business Day prior to the Suspension Date, being: (i) in Bahrain, 22 March 2020; and (ii) in Kuwait, 22 March 2020, unless an official public holiday is declared, then it shall be 19 March 2020
<b>Lead Legal Advisor</b>	Linklaters LLP
<b>Legal Advisor in respect of the laws of Bahrain and Kuwait</b>	ASAR - Al Ruwayeh & Partners
<b>Legal Advisors</b>	Linklaters LLP and ASAR - Al Ruwayeh & Partners
<b>Minor</b>	A person who is below 21 years of age
<b>MOCI</b>	The Ministry of Commerce and Industry in the State of Kuwait
<b>MOICT</b>	The Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain
<b>MOU</b>	The memorandum of understanding and confidentiality of information in relation to the Offer between KFH and AUB dated 22 July 2018
<b>New KFH Shares</b>	The new KFH Shares to be issued, credited as fully paid, to AUB Shareholder pursuant to the Offer
<b>Offer or KFH Offer</b>	The voluntary conditional offer made by KFH to acquire 100% of the issued and paid up ordinary shares of AUB by way of a share swap at the Exchange Ratio
<b>Offer Acceptance/Rejection Announcement Date</b>	The date falling on the Initial Offer Closing Date by which the results of the Offer, as to Requisite Acceptances, will be communicated to the AUB Shareholders, being 15 April 2020 for the purposes of this Circular
<b>Offer Document</b>	The offer document prepared by KFH in connection with the Offer dated 24 February 2020
<b>Offer Opening Date</b>	26 March 2020, being the date from which the completed Acceptance and Transfer Forms will be received by the Receiving Agents
<b>Offer Period</b>	The period beginning on the Offer Opening Date and ending on the Final Offer Closing Date
<b>Professional Independent Adviser</b>	Citigroup Global Markets Limited, being the professional independent adviser appointed by AUB in connection with the Offer
<b>Participating Branches</b>	The branches of AUB in Bahrain listed in paragraph 8.2.1 of Part IV of this Circular that will be receiving Acceptance and Transfer Forms during the Offer Period
<b>Receiving Agents</b>	The Bahrain Receiving Agent and the Kuwait Receiving Agent
<b>Recommendations of the Board</b>	The recommendations of the Board to the AUB Shareholders in relation to the KFH Offer as set out in section V of this Circular

<b>Record Date</b>	The date preceding the Offer Opening Date established for the purposes of identifying the AUB Shareholders' entitlement to receive the Offer, and to enable a list of AUB Shareholders entitled to receive the New KFH Shares to be drawn up, being 24 March 2020 in the Kingdom of Bahrain and 25 March 2020 in the State of Kuwait
<b>Requisite Acceptances</b>	The valid Acceptances that are received in respect of AUB Shares that represent at least 85% of the total issued share capital of AUB at the time of the Initial Offer Closing Date
<b>SICO</b>	SICO B.S.C.(c)
<b>Restricted Jurisdiction</b>	Any jurisdiction where the making or the acceptance of the Offer would violate the laws of the jurisdiction
<b>Suspension Date</b>	The date on which trading in the AUB Shares is suspended to enable a list of AUB Shareholders' entitled to receive the Offer and to receive the New KFH Shares to be drawn up, which shall be the date falling one (1) Business Day post the Last Trading Date, being 23 March 2020 for the purposes of this Circular
<b>Suspension Period</b>	The period during which trading in the AUB Shares will be suspended which shall commence on the Suspension Date and will continue until the earlier of: (i) the date on which the Offer is discontinued due to failure in declaring it unconditional as to the Requisite Acceptances; or (ii) the date on which the Offer is discontinued due to failure in declaring it unconditional in all respects; or (iii) the Effective Date
<b>TMA</b>	The Takeovers, Mergers and Acquisitions Module of Volume 6 of the CBB Rulebook
<b>USD</b>	United States dollar, the lawful currency of the United States of America
<b>VWAP</b>	Volume Weight Average Price per AUB Share

### III. EXPECTED TIMETABLE

The following dates are indicative only and will depend on whether, amongst other things, (and the dates on which) the Conditions Precedent are satisfied.

#### Offer Timetable and key dates

Event	Date
KFH Firm Intention Date	5 February 2020
Receipt of the Offer Document	24 February 2020
Latest Practicable Date	10 March 2020
Date of this Circular	16 March 2020
Posting Date of this Circular, the Offer Document and Acceptance and Transfer Form <sup>1</sup> to AUB Shareholders	16 March 2020
Last Trading Date	22 March 2020 <sup>2</sup>
Suspension Date	23 March 2020
Record Date	For shareholders of AUB Shares held on BB, this shall be 24 March 2020  For shareholders of AUB Shares held on BK, this shall be 25 March 2020
Offer Opening Date	26 March 2020
Initial Offer Closing Date	15 April 2020 (subject to extension)
Offer Acceptance/Rejection Announcement Date <sup>3</sup>	15 April 2020
Last day for the Offer to become or declared unconditional as to acceptances	24 April 2020
Right of Accepting AUB Shareholders to withdraw their Acceptances arises unless the Offer has become unconditional as to Requisite Acceptances	29 April 2020
AUB EGM	7 May 2020 <sup>4</sup>

<sup>1</sup> The Acceptance and Transfer Form will only be dispatched to AUB Shareholders holding AUB BB Shares. AUB Shareholders holding AUB BK Shares will complete the Acceptance and Transfer Form at the offices of the Kuwait Receiving Agent as per the process detailed in paragraph 9.2 of Part IV of this Circular.

<sup>2</sup> If an official public holiday is declared in Kuwait, then the date in Kuwait shall be 19 March 2020.

<sup>3</sup> If the Requisite Acceptances are received, AUB Shareholders who did not accept the Offer prior to the Initial Offer Closing Date can, if they wish to, accept the Offer, as per the process defined in paragraph 9 of section IV of this Circular, till Final Offer Closing Date.

<sup>4</sup> Subject to exemption from the CBB on rule 2.14.5 of the TMA.

Final Offer Closing Date	12 May 2020
Offer to be declared unconditional in all respects <sup>5</sup>	Expected to be 12 May 2020 <sup>6</sup>
Release of New KFH Shares to AUB Shareholders <sup>7</sup>	Effective Date
Effective Date <sup>8</sup>	Expected to be 18 May 2020

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<sup>5</sup> AUB Shareholders should note that the Offer will not be open for further Acceptances once it is declared unconditional in all respects.

<sup>6</sup> Subject to the satisfaction of all Conditions Precedent.

<sup>7</sup> Subject to the approval of the CMA on issuance of the New KFH Shares and adhering to the applicable laws and regulations in Kuwait and Bahrain.

<sup>8</sup> Subject to the Conditions Precedent of the Offer having been satisfied and all regulatory approvals having been obtained.

#### **IV. LETTER TO AUB SHAREHOLDERS FROM THE BOARD**

##### **AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 46348)

##### **Registered Office:**

Building 2495, Road 2832,  
Al Seef District 428, P.O. Box 2424,  
Manama, Kingdom of Bahrain

16 March 2020

**To,**

**The Shareholders of Ahli United Bank B.S.C.**

Dear Sir/Madam,

**Kuwait Finance House K.S.C.P.'s voluntary conditional offer to acquire 100% of the issued and paid up ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 1 New KFH Share for each 2.325581 AUB Shares**

#### **1 INTRODUCTION**

##### **1.1 Circular**

The purpose of this Circular is to provide relevant information to the AUB Shareholders in compliance with the TMA and pertaining to the Offer and to set out the Recommendations of the Board and the Professional Independent Adviser's Opinion to the Board in relation to the Offer.

##### **1.2 Background**

**1.2.1** On 22 July 2018, KFH and AUB entered into a memorandum of understanding governing the valuation, due diligence and other technical and regulatory steps required to create a combined business entity with KFH.

**1.2.2** On 24 January 2019, each of KFH and AUB announced the average of the preliminary exchange ratio that was agreed based on preliminary assessments prepared by HSBC Bank Middle East and Credit Suisse. KFH and AUB further announced that, at that time, the determination of the final exchange ratio remained subject to the conclusion of due diligence studies to be conducted by each bank on the other.

**1.2.3** On 12 September 2019, AUB announced that the due diligence and valuation exercises with respect to the Offer had concluded and that the Boards of Directors of KFH and AUB had approved the final Exchange Ratio, being 1 New KFH Share for each 2.325581 AUB Shares.

**1.2.4** As per the Offer Document, the CBB provided its conditional approval, dated 31 October 2019, to KFH pertaining to undertaking the Offer (the "**Initial Approval**"). Pursuant to the Initial Approval and, as per the Offer Document, KFH provided the CBB with a letter dated 18 November 2019 setting out its responses to the conditions set out in the Initial Approval. Following KFH's response, the CBB provided its no objection letter, dated 28 November 2019, pertaining to undertaking the Offer.



- 1.2.5 On 5 February 2020, AUB received from KFH its Firm Intention to make an Offer to acquire 100% of the AUB Shares.
- 1.2.6 In accordance with TMA rule 2.2.1, the Board appointed Citigroup Global Markets Limited as its Professional Independent Adviser to provide advice to the Board in respect of the Offer, in particular, as to whether the Offer is, or is not, fair and reasonable and as to acceptance and voting. The fairness opinion of the Professional Independent Adviser is set out in section VI of this Circular.
- 1.2.7 On 23 February 2020, as per the Offer Document, the CMSD provided its no objection letter on the contents and dispatch of the Offer Document.
- 1.2.8 On 24 February 2020, AUB received a voluntary conditional offer document from KFH to acquire 100% of the issued and paid up ordinary shares of AUB, subject to the fulfilment of certain Conditions Precedent as set out in section 5.7 of the Offer Document (which are replicated in paragraph 2.6 of Part IV of this Circular). The consideration set out in paragraph 1.2.3 above was reiterated in the Offer Document.
- 1.2.9 On 15 March 2020, AUB and KFH signed the Implementation Agreement.
- 1.2.10 The AUB Shareholders should, at a minimum, carefully and diligently consider the following before deciding on whether or not to accept the KFH Offer:
- (i) this letter to the AUB Shareholders from the Board as set out in section IV of this Circular;
  - (ii) the recommendation letter from the Board to the AUB Shareholders as set out in section V of this Circular;
  - (iii) the fairness opinion of the Professional Independent Adviser as set out in section VI of this Circular;
  - (iv) the terms and conditions as mentioned in the Offer Document;
  - (v) the terms and conditions as mentioned in the Acceptance and Transfer Form; and
  - (vi) any independent professional advice sought and as deemed appropriate by an AUB Shareholder.

## **2 THE KFH OFFER**

Information on the KFH Offer is available in section 5 of the Offer Document. The information set out below is reproduced from the Offer Document:

The Board of Directors of KFH refer to the Firm Intention dated 5 February 2020 whereby the Board of Directors of AUB were notified of KFH's Firm Intention to make an Offer to the AUB Shareholders to acquire their AUB Shares. The details of the Offer are set out below and in the Offer Document.

### **2.1 The Offeree and Securities for which the Offer is made**

AUB is registered with the MOICT under commercial registration number 46348 as a public Bahraini shareholding company whose ordinary shares are listed on the BB and BK.

AUB is licensed by the CBB as a locally incorporated bank operating as a conventional retail bank and providing its clients through its network of subsidiaries and associated companies

with: (i) retail banking; (ii) corporate banking; (iii) treasury and investment services; (iv) private banking and wealth management services; and (v) Islamic banking products & services, besides offering conventional and Takaful life insurance products. AUB operates regionally through its subsidiaries, associates and branches in United Kingdom, Kuwait, Egypt, United Arab Emirates, Iraq, Libya and Oman.

The Offer is to acquire AUB Shares that comprise 100% of AUB's issued and paid up share capital that is inclusive of 8,774,444,281 (eight billion, seven hundred and seventy-four million, four hundred and forty-four thousand and two hundred eighty-one) AUB Shares of a nominal value of USD0.25 each and any AUB shares that are issued and paid as bonus shares after the date of the Offer Document, but before the Effective Date.

## **2.2 The Offeror**

KFH is registered in the State of Kuwait with the MOCI under commercial registration number 26066 as a public Kuwaiti shareholding company whose ordinary shares are listed on the BK.

KFH is licensed by the CBK as a locally incorporated bank operating as an Islamic Bank and provides a wide range of banking Sharia'a compliant products and services, covering real estate, trade finance, investment portfolios, commercial, retail and corporate banking and is available in Kuwait, Kingdom of Bahrain, Kingdom of Saudi Arabia, Turkey, Malaysia, and Germany.

As at the date of the Offer Document, KFH has an authorised share capital of KWD1,117,648,920.200 and an issued and paid up share capital of KWD697,648,920.200 divided into 6,976,489,202 ordinary shares with a nominal value of KWD0.100 each.

## **2.3 Consideration for the Offer**

The consideration for the Offer is the issue of New KFH Shares at the Exchange Ratio of 1 New KFH Share for each 2.325581 AUB Shares, provided that the Offer becomes unconditional after the fulfilment, or waiver (where applicable), of the Conditions Precedent.

Please refer to section 5.4 of the Offer Document for further details.

## **2.4 Shareholders Eligible for the Offer**

AUB Shareholders whose names appear in the AUB Share register on the Record Date will be eligible to receive the Offer.

## **2.5 Suspension of Trading**

Trading in AUB Shares will be suspended for the duration of the Suspension Period.

## **2.6 Conditions Precedent to the Offer**

The implementation of the Offer will be subject to the fulfilment, or waiver (where applicable), of the following Conditions Precedent. For the avoidance of doubt, the Offer shall not become unconditional unless the below Conditions Precedent are fulfilled or waived (where applicable) by KFH:

- a. Receipt of the Requisite Acceptances;
- b. Following receipt of the Requisite Acceptances, the AUB Shareholders approving, amongst other things, and subject to any legal and regulatory requirements,

converting the AUB business in Bahrain to Sharia'a compliant at the AUB EGM by a majority vote of two thirds of the AUB Shares represented at the AUB EGM;

- c. Receipt of all regulatory and statutory approvals, exemptions and/or waivers in connection with the Offer and the acquisition of no less than 100% of the issued and paid up ordinary shares of AUB, including receipt of the CBB and CBK final approvals, exemptions and/or waivers required to implement the Offer, receipt of the CMA approval for the issuance of the New KFH Shares and receipt of any other approval required from any regulatory or statutory authority as may be determined; and
- d. KFH successfully completing a cross-listing on BB in line with the applicable rules and regulations of the CBB and BB.

In respect of Condition Precedent b above, the invitation to the AUB EGM will be published upon declaring the Offer unconditional as to Requisite Acceptances in line with the provisions of the TMA and the Commercial Companies Law.

**AUB Shareholders and/or potential investors of AUB should note that the Offer is subject to the satisfaction or, with the exception of Conditions Precedent (a) and (d) in section 5.7 of the Offer Document, waiver (where applicable) of the Conditions Precedent and conditional upon, the Offer becoming or being declared unconditional in all respects. Accordingly, the Offer may or may not become unconditional. AUB Shareholders and/or potential investors of AUB should therefore exercise caution when dealing in the securities of AUB. Persons who are in doubt as to the action they should take should consult their licensed brokers, dealers, solicitors, professional accountants or other professional advisers.**

Under TMA Rule 2.14.3, setting out the 'final day rule', except with the consent of the CBB, the Offer may not become or be declared unconditional as to acceptances after the official working hours on the 60th day after the date the Offer Document was posted.

Under TMA Rule 2.14.5, except with the consent of the CBB, all conditions must be fulfilled, or the Offer must lapse within fifteen (15) calendar days of the Initial Offer Closing Date or of the date the Offer is declared unconditional as to acceptances, whichever is the later. As set out in the Offer Document issued by KFH on 24 February 2020 the final date for the Offer to be declared unconditional in all respects is expected to be 12 May 2020.

More guidance on the expected timetable for the Offer is provided in section III of this Circular.

## **2.7 Offer Acceptance Procedures**

AUB Shareholders willing to accept the Offer are required to tender all of their AUB Shares and may not tender only a part of their AUB Shares. AUB Shareholders may potentially be holding the AUB Shares in one, or a combination, of the following forms:

- a) AUB Shares in Demat form held in a brokerage account with a registered broker in BB;
- b) AUB Shares in Demat form held in BC or KCC; and/or
- c) AUB Shares in physical form with an original share certificate only.

If the Requisite Acceptances are received, AUB Shareholders who did not accept the Offer before the Initial Offer Closing Date can, if they wish, accept the Offer, as per the process defined in paragraph 9 of Part IV of this Circular, up until the Final Offer Closing Date.

Please refer to sections 5.8 and 6 of the Offer Document for further details.

## **2.8 Acceptance Irrevocable**

As per the procedures set out in the Offer Document, upon an AUB Shareholder submitting the completed Acceptance and Transfer Form to the relevant Receiving Agent, the Acceptance becomes irrevocable and cannot be withdrawn by that AUB Shareholder either in whole or in part except if, as at the Final Offer Closing Date, the Conditions Precedent remain unfulfilled or have not been waived (where applicable). An acceptor will be entitled to withdraw his acceptance after 14 days from the Initial Offer Closing Date, if the Offer has not become unconditional as to Requisite Acceptances by that date.

## **2.9 Issuance of New KFH Shares**

The issuance of the New KFH Shares will be conducted and managed by the KCC and is subject to the CMA processes and approval. The KCC will liaise directly with the BC to create a shared electronic platform in order to enable the production of an AUB Shareholders register of the shareholders entitled to receive the New KFH Shares, whether in Kuwait or Bahrain, pursuant to the terms and conditions of the Offer.

Two (2) Business Days prior to the Effective Date, in the first instance, the KCC will issue and credit the New KFH Shares in Kuwait, however, the issued New KFH Shares will not be released to the AUB Shareholders until the Effective Date. AUB Shareholders should note that the two (2) Business Days' period reflects the timing required administratively for the transfer of the New KFH Shares with respect to the AUB Shareholders of AUB BB Shares to BB.

On the Effective Date the KCC or BC, as the case may be, will release the New KFH Shares and the AUB Shareholders of AUB BK Shares will receive their New KFH Shares listed and in a tradable format on BK and the AUB Shareholders of AUB BB Shares will receive their New KFH Shares listed and in a tradable format on BB.

AUB Shareholders should note that on the Effective Date, the share register of KFH will be updated to reflect the ownership of both AUB Shareholders of AUB BK Shares and AUB BB Shares. Actual ownership of the New KFH Shares and the attached entitlements will be effected for both AUB Shareholders of AUB BK Shares and AUB BB Shares on the Effective Date.

**AUB Shareholders should note that the issuance of the New KFH Shares process may be subject to change or update as may be required by the CMA, KCC, CBB, CMSD, BC, BK and/or BB. Full and immediate disclosure will be made by KFH to the AUB Shareholders of any changes or updates that may occur after the date of the Offer Document.**

## **2.10 Rights of the New KFH Shares**

The New KFH Shares shall rank *pari passu* with the existing ordinary shares of KFH. Other than ordinary shares, KFH has not issued any other classes of shares.

Provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent, AUB Shareholders of the New KFH Shares will be entitled to any dividends

declared by KFH pertaining to the financial year ending 31 December 2020 and for subsequent years on a *pari passu* basis with other holders of shares in KFH.

Holders of the New KFH Shares will enjoy all the rights and obligations of the existing shareholders of KFH, including but not limited to, participation and voting in shareholders' general assembly meetings and participation on a *pari passu* basis in any distributions or other returns of capital whether with respect to a liquidation or otherwise.

### **3 POST-ACQUISITION STRATEGY OF KFH FOR AUB AND THE EFFECT OF THE KFH OFFER**

The post-acquisition strategy of KFH for AUB and the effect of the KFH Offer are set out in sections 11 and 15 respectively of the Offer Document.

### **4 OPINION ON IMPACT ON OFFEREE'S EMPLOYEES**

As per section 15.4 of the Offer Document, the successful completion of the Offer will not result in any immediate effect on AUB's employees and there is no current intention to implement changes in management or organisational structure except for any changes which may be implemented as contemplated as per the Offer Document.

The Board has not made any assessments or evaluations of the effect of the successful completion of the Offer on the Offeree's employees and have relied on the representations and statements made by KFH as above.

### **5 INFORMATION ABOUT THE OFFEREE**

Relevant information about the Offeree is covered in Appendix A of this Circular.

### **6 INFORMATION ABOUT KFH**

Relevant information about KFH has been set out in section 7 of the Offer Document.

### **7 RECOMMENDATIONS OF THE BOARD AND THE ADVISER'S OPINION**

Your attention is drawn to: (i) section V of this Circular which contains the recommendation of the Board as to whether or not the Shareholders should accept the KFH Offer; and (ii) section VI of this Circular which contains the Professional Independent Adviser's Opinion to the Board in connection with the Offer and the principal factors considered by it in arriving at its Opinion. AUB Shareholders should read these letters in conjunction with this Circular and the Offer Document carefully before taking any action in respect of the Offer.

### **8 AUB SHAREHOLDERS' RESPONSIBILITIES**

#### **8.1 Compliance with Applicable Laws**

The availability of the Offer to the AUB Shareholders might be affected by the laws of their respective jurisdiction in which they are based. Accordingly, any AUB Shareholder should inform himself/herself about and observe any applicable legal requirements in his/her respective jurisdiction.

For the avoidance of doubt, the Offer is made to all AUB Shareholders including those to whom the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents have not been, or will not be, sent.

Where there are potential restrictions on sending the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents to any jurisdiction, the Offeree reserves the right not to send the documents to AUB Shareholders in such jurisdictions. However, the Offeree may at its sole discretion take such action as it may deem necessary to send this Circular to AUB Shareholders in any jurisdiction.

The Offer may be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction, and any AUB Shareholder should inform himself/herself about and observe any applicable legal requirements in his/her respective jurisdiction.

It is the responsibility of any AUB Shareholder who wishes to: (i) request for the Offer Document, the Acceptance and Transfer Form and the Circular; or (ii) accept the KFH Offer, to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such AUB Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the KFH Board and any person acting on its behalf shall be fully indemnified and held harmless by such AUB Shareholder for any such taxes, imposts, duties or other requisite payments as the Board and/or any person acting on its behalf may be required to pay. In: (i) requesting for the Offer Document, the Acceptance and Transfer Form and the Circular; and/or (ii) accepting the KFH Offer, the AUB Shareholder represents and warrants to the Board that he/she is in full observance of the laws of the relevant jurisdiction in that connection, and that he/ she is in full compliance with all necessary formalities or legal requirements. Any AUB Shareholder who is in any doubt about his/her position should consult his/her professional adviser in the relevant jurisdiction.

## **8.2 Copy of Offer Documents**

AUB Shareholders may obtain a copy of this Circular and the Offer Document from offices of the Receiving Agents, BB and Participating Branches set out in paragraph 8.2.1 below. Copies of the Acceptance and Transfer Form can be: (i) in Bahrain, obtained from the offices of the Bahrain Receiving Agents, BB and the Participating Branches; and (ii) in Kuwait, procured and completed electronically at the offices of the Kuwait Receiving Agent.

This Circular, the Offer Document and the Acceptance and Transfer Form shall also be available on AUB's website – <https://www.ahliunited.com>, BB's website – <https://www.bahrainbourse.com>, and BK's website – <https://boursakuwait.com.kw/>.

Alternatively, any AUB Shareholder who wishes to receive a copy of this Circular, the Offer Document and the Acceptance and Transfer Form (as applicable, noting that AUB Shareholders of AUB BK Shares will procure and complete Acceptance and Transfer Forms electronically at the offices of the Kuwait Receiving Agent) may write to the Board Secretary of AUB at the registered office of AUB at Building 2495, Road 2832, Al Seef District 428, Manama, Kingdom of Bahrain or by email to [corporate.secretary@ahliunited.com](mailto:corporate.secretary@ahliunited.com), in each case up to three (3) days prior to the Final Offer Closing Date. Such AUB Shareholders will be sent the documents by ordinary post at the AUB Shareholder's own risk.

### **8.2.1 Addresses, contact details and opening times for the Receiving Agents and the Participating Branches**

No.	Name	Address	Telephone No.	Opening days	Operating hours
<b>Bahrain Receiving Agents</b>					
1	SICO B.S.C.(c) – Receiving desk at the BB	4th floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17 515022	Sunday to Thursday	9:00am - 1:00pm
2	Bahrain Clear B.S.C.(c)	4th floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17108844	Sunday to Thursday	9:00am – 1:00pm
<b>Kuwait Receiving Agent</b>					
1	Kuwait Clearing Company K.S.C.	Ahmad Tower 5th Floor, Sharq, Kuwait City	(965) 22464565	Sunday to Thursday	8:30am – 3:00pm
<b>Participating Branches in Bahrain</b>					
1	Seef Headquarters	Building 2495, Road 2832, Al Seef District 428	(973) 17585514/39	Sunday to Thursday	8:00am – 3:30pm
2	Central Manama	Bahrain car park commercial center, Manama, Building #126, Road 383, Block 316	(973) 17221700	Saturday to Thursday	8:00am – 2:00pm
3	Seef Mall Muharraq	Shops#2009, building 154, road 29, block 240, Muharraq	(973) 17562720	Saturday to Thursday	11:30am – 7:00pm
4	Mercado Mall	Unit 112, Building 108, Road # 79 Avenue 79, Block 575 Janabiyah	(973) 17562749	Saturday to Thursday	11:30am – 7:00pm
5	Juffair Oasis Mall	Unit#137, Building # 180, Ground floor level, Oasis Mall, 341 al	(973) 17579353	Saturday to Thursday	11:30am – 7:00pm

		shabab Avenue, Juffair, Kingdom of Bahrain			
6	Riffa Branch	Shops 122, 124, 126 & 128, Shaikh Ali Bin Khalifa Road, Block 903, East Riffa	(973) 17562722	Sunday to Thursday	8:00am – 3:30pm

### 8.3 Notice

The Offeree and/or the Offeror has reserved the right to notify any matter, including the fact that the Offer has been made, to any or all AUB Shareholders by announcement to the BB and BK and/or paid advertisement in two daily newspapers published and circulated in the Kingdom of Bahrain and in the State of Kuwait, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any AUB Shareholder to receive or see such announcement or advertisement.

## 9 ACTION TO BE TAKEN BY AUB SHAREHOLDERS

### 9.1 Acceptance submission procedures pertaining to AUB Shareholders of AUB BB Shares

All AUB Shareholders of AUB BB Shares willing to accept the Offer will be required to forward the following documentation to the Bahrain Receiving Agent:

#### 9.1.1 For submissions by individuals:

AUB Shareholders who are individuals and who wish to accept the Offer must submit the following documents:

- (i) the original signed Acceptance and Transfer Form;
- (ii) the original or Certified Copy and a copy of the following two forms of identification:
  - (a) the individual's valid passport or valid international travel document; and
  - (b) the individual's valid national identification card or an equivalent document,
- (iii) proof of permanent residential address. The proof can consist of a copy of a recent utility bill, bank statement or similar statement from another bank or financial institution licensed in the country, which have been issued within three months prior to their presentation, or official documentation, such as a smartcard, from a public/governmental authority, or a tenancy agreement;
- (iv) if an individual AUB Shareholder has an existing IN, proof of such IN is required in the form of a BB investor card or statement of account, or a BB system print-screen or an allotment notice from a previous initial public offering in Bahrain of no earlier than 2006;



- (v) original share certificates for those AUB Shareholders holding physical AUB Shares. Holders of physical AUB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from BC prior to submitting their Acceptance and Transfer Form. As an alternative to physical AUB Shares, holders of lost or damaged physical AUB Shares may also approach BC to have such replacement shares issued in electronic form at no additional cost;
- (vi) a statement of account from BC or a BB registered broker in respect of AUB Shares held in electronic form;
- (vii) the following additional documents are required when a person is signing on behalf of an individual AUB Shareholder by way of a power of attorney:
  - (a) the original or Certified Copy and copy of the valid passport or international travel document of the person applying and signing on behalf of the individual AUB Shareholder;
  - (b) the original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual AUB Shareholder; and
  - (c) the original or Certified Copy and copy of the notarised (or where from outside the Kingdom of Bahrain, apostilled/legalised) power of attorney,
- (viii) the following additional documents are required for applications on behalf of Minors:
  - (a) the original or Certified Copy and copy of the valid passport or valid international travel document of the legal guardian applying and signing on behalf of the Minor;
  - (b) the original or Certified Copy and copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor; and
  - (c) unless the legal guardian signing on behalf of the Minor is the Minor's father, the original or Certified Copy and copy of the proof of guardianship to the applying Minor.

**9.1.2 For submissions by institutions:**

All institutions must provide the following documentation:

- (i) the original signed Acceptance and Transfer Form;
- (ii) a copy of a valid commercial registration certificate of the institution;
- (iii) a copy of the memorandum and articles of association, or equivalent, of the institution;
- (iv) the original or Certified Copy and a copy of the following two forms of identification in respect of the individual signing on behalf of the institution:
  - (a) the individual's valid passport or valid international travel document; and

- (b) the individual's valid national identification card or an equivalent document,
- (v) if the institution has an existing IN, proof of such an IN is required in the form of a BB investor card or statement of account, or a BB system print-screen, or an allotment notice from a previous initial public offering in Bahrain of no earlier than 2006;
- (vi) original share certificates for those institutions holding AUB Shares in physical form. Holders of physical AUB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from BC prior to submitting their Acceptance and Transfer Form. As an alternative to physical AUB Shares, holders of lost or damaged physical AUB Shares may also approach BC to have such replacement shares issued in electronic form at no additional cost;
- (vii) a statement of account from BC or a BB registered broker in respect of their AUB Shares held in electronic form; and
- (viii) the original and copy of the document authorising the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution.

All completed Acceptance and Transfer Forms, together with the required documentation, should be submitted by hand to any of:

- (i) the desk of the Bahrain Receiving Agent listed in section 6.2 of the Offer Document during the Offer Period; or
- (ii) the Participating Branches listed in section 6.2 of the Offer Document during the Offer Period.

In all cases the documents should reach one of the above locations no later than the close of business on the Initial Offer Closing Date.

AUB Shareholders who do not have an IN number will be required to obtain an IN number prior to any future transfer of any New KFH Shares received pursuant to the Offer using BC Application Form Number 1(A) for individuals and 1(B) for institutions. Certain fees payable to BC may apply. For the avoidance of doubt, this is not a requirement for Accepting the Offer. AUB Shareholders who wish to trade any New KFH Shares received pursuant to the Offer on the BB in the future will be required, prior to such trading, to open a trading account with a registered broker and open an investor account with BC via BC Application Form Number (2) – Investor Account Opening Form. Subsequently, an AUB Shareholder may transfer the shares from the “CSD to the Broker” via the BC Application Form Number (6) - Transfer application between CSD and Broker. Certain fees payable to BC may apply. For the avoidance of doubt, this is not a requirement for Accepting the Offer.

At the time of submission of a completed Acceptance and Transfer Form, the Bahrain Receiving Agent or the Participating Branches shall verify the validity of all copies of each participating AUB Shareholder's identification documents along with the submitted Acceptance and Transfer Form.

AUB Shareholders intending to accept the Offer and who hold AUB Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror or the Bahrain Receiving Agent.

The following important directions should be followed when completing the Acceptance and Transfer Form:

- a) Only the prescribed Acceptance and Transfer Form received by mail or collected from the participating desk of the Bahrain Receiving Agent or the Participating Branches should be used, and completed in full in accordance with the instructions contained therein.
- b) In the case of joint owners of AUB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners.
- c) In the case of any AUB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and sent along with a copy of the document reflecting the investment manager's position as the investment manager for the AUB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the AUB Shares and be provided together with their specific signed mandate.

The Offeror and the Receiving Agent reserve the right to reject any Acceptance and Transfer Forms if:

- a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
- b) any of the information stated in section 6.1 of the Offer Document is not included in or with the Acceptance and Transfer Form; or
- c) the Acceptance and Transfer Form along with all of the above documents is received by the Bahrain Receiving Agent after the close of business on the Initial Offer Closing Date.

The Offeror and the Bahrain Receiving Agent reserve the right to accept, at its sole discretion, duly completed Acceptance and Transfer Forms where the information set out in section 6.1 of the Offer Document has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer have been complied with.

The AUB Shareholder shall:

- a) consent to the passing on of any information about the AUB Shareholder to any relevant regulatory authorities by the Bahrain Receiving Agent, the registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;
- b) acknowledge that due to money laundering requirements operating within Bahrain, the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the AUB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;

- c) hold the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the AUB Shareholder has not been provided within the allotted time to the satisfaction of the party requesting such information; and
- d) understand and agree that any New KFH Shares to be issued to the AUB Shareholder may be retained pending the completion of any verification of identity required by the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be).

## **9.2 Acceptance submission procedures pertaining to AUB Shareholders of AUB BK Shares**

AUB Shareholders of AUB BK Shares should note that the Acceptance and Transfer Form will be procured and completed electronically at the offices of the Kuwait Receiving Agent. However, it will need to be physically signed by the relevant AUB Shareholder, or its representative, after it is printed at the offices of the Kuwait Receiving Agent.

All AUB Shareholders of AUB BK Shares willing to accept the Offer will be required to submit the following documentation with the Kuwait Receiving Agent:

### **9.2.1 For submissions by individuals:**

AUB Shareholders who are individuals and who wish to accept the Offer must submit the following documents:

- (i) the original signed Acceptance and Transfer Form;
- (ii) the original or Certified Copy and a copy of one of the following forms of identification:
  - (a) the individual's valid passport or valid international travel document; and
  - (b) the individual's valid national identification card or an equivalent document,
- (iii) proof of permanent residential address. The proof can consist of a copy of a recent utility bill, bank statement or similar statement from another bank or financial institution licensed in the country, which have been issued within three months prior to their presentation, or official documentation, such as a smartcard, from a public/governmental authority, or a tenancy agreement;
- (iv) the following additional documents are required when a person is signing on behalf of an individual AUB Shareholder by way of a power of attorney:
  - (a) the original or Certified Copy and copy of the valid passport or international travel document or valid national identification card of the person applying and signing on behalf of the individual AUB Shareholder;
  - (b) the original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual AUB Shareholder; and

- (c) the original or Certified Copy and copy of the notarised (or where from outside the State of Kuwait, apostilled/legalised) power of attorney,
- (v) the following additional documents are required for applications on behalf of Minors:
  - (a) the original or Certified Copy and copy of the valid passport or valid international travel document or valid national identification card of the legal guardian applying and signing on behalf of the Minor;
  - (b) the original or Certified Copy and copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor; and
  - (c) unless the legal guardian signing on behalf of the Minor is the Minor's father, the original or Certified Copy and copy of the proof of guardianship to the applying Minor.

**9.2.2** For submissions by institutions:

All institutions must provide the following documentation:

- (i) the original signed Acceptance and Transfer Form;
- (ii) a copy of a valid commercial registration certificate of the institution;
- (iii) a copy of the memorandum and articles of association, or equivalent, of the institution;
- (iv) the original or Certified Copy and a copy of the following two forms of identification in respect of the individual signing on behalf of the institution:
  - (a) the individual's valid passport or valid international travel document; and
  - (b) the individual's valid national identification card or an equivalent document,
- (v) the original and copy of the document authorizing the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution.

All signed Acceptance and Transfer Forms (once completed electronically at the offices of the Kuwait Receiving Agent), together with the required documentation, should be submitted by hand to the desk of the Kuwait Receiving Agent listed in section 6.2 of the Offer Document during the Offer Period.

In all cases the documents should reach the above location no later than the close of business on the Initial Offer Closing Date.

At the time of submission of a completed Acceptance and Transfer Form, the Kuwait Receiving Agent shall verify the validity of all copies of each participating AUB Shareholder's identification documents along with the submitted Acceptance and Transfer Form.

AUB Shareholders intending to accept the Offer and who hold AUB Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror or the Kuwait Receiving Agent.

Noting that the Acceptance and Transfer Form will be electronically produced at the offices of the Kuwait Receiving Agent, the following important directions should be followed when completing the Acceptance and Transfer Form:

- a) Only the prescribed Acceptance and Transfer Form procured at the participating desk of the Kuwait Receiving Agent should be used, and completed in full in accordance with the instructions contained therein.
- b) In the case of joint owners of AUB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners.
- c) In the case of any AUB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and submitted along with a copy of the document reflecting the investment manager's position as the investment manager for the AUB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the AUB Shares and be provided together with their specific signed mandate.

The Offeror and the Kuwait Receiving Agent reserve the right to reject any Acceptance and Transfer Forms if:

- (a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
- (b) any of the information stated in section 6.1 of the Offer Document is not included in or with the Acceptance and Transfer Form; or
- (c) the Acceptance and Transfer Form along with all of the above documents is received by the Kuwait Receiving Agent after the close of business on the Initial Offer Closing Date.

The Offeror and the Kuwait Receiving Agent reserve the right to accept, at its sole discretion, duly completed Acceptance and Transfer Forms where the information set out in section 6.1 of the Offer Document has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer have been complied with.

The AUB Shareholder shall:

- a) consent to the passing on of any information about the AUB Shareholder to any relevant regulatory authorities by the Kuwait Receiving Agent, the registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;
- b) acknowledge that due to money laundering requirements operating within Kuwait, the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the AUB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;
- c) hold the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the AUB Shareholder has not been

provided within the allotted time to the satisfaction of the party requesting such information; and

- d) understand and agree that any New KFH Shares to be issued to the AUB Shareholder may be retained pending the completion of any verification of identity required by the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be).

AUB Shareholders should note that only Acceptances that are not rejected will count towards the Requisite Acceptances.

Once all the Conditions Precedent have been fulfilled or waived (where applicable) and the Offer becomes unconditional in all respects, during or at the end of the Final Offer Closing Date, KFH will arrange to make an announcement to this effect in two newspapers in the Kingdom of Bahrain and the websites of the BB, BK, AUB and KFH.

Allotment notices for each AUB Shareholder will be made available for collection at the KCC for AUB Shareholders of AUB BK Shares and the BC for AUB Shareholders of AUB BB Shares, during normal working hours starting from the Effective Date.

Any queries regarding the application procedure should be directed to the Receiving Agents.

Yours faithfully,

On behalf of the Board of Directors

A handwritten signature in blue ink, consisting of several overlapping loops and a final flourish.

Chairman of the Board of Directors

## V. RECOMMENDATION LETTER FROM THE BOARD TO THE AUB SHAREHOLDERS

### AHLI UNITED BANK B.S.C.

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 46348)

#### Registered Office:

Building 2495, Road 2832,  
Al Seef District 428, P.O. Box 2424,  
Manama, Kingdom of Bahrain

16 March 2020

To,

**The Shareholders of Ahli United Bank B.S.C.**

Dear Sir/Madam,

**Kuwait Finance House K.S.C.P.'s voluntary conditional offer to acquire 100% of the issued and paid up ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 1 New KFH Share for each 2.325581 AUB Shares**

#### INTRODUCTION

We refer to the Circular dated 16 March 2020 issued by AUB, of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 25 February 2020, AUB announced that the Board received the Offer Document from KFH on 24 February 2020 offering to acquire 100% of the issued and paid up ordinary capital of AUB by way of a share swap at an exchange ratio of 1 New KFH Share for each 2.325581 AUB Shares on the terms and conditions contained in the Offer Document.

**The acquisition requires the satisfaction of certain conditions (as set out in section 5.7 of the Offer Document and as replicated in paragraph 2.6 of Part IV of this Circular). If the conditions are met you will receive 1 New KFH Share for every 2.325581 AUB Shares that you hold, and you will no longer hold any shares in AUB.**

The Offer, which the Board unanimously recommends, will, if effected, create a financial institution with a significantly enhanced strategic position across key products and services in the Islamic Finance sector. We understand from public sources that the Offer was approved by the Board of KFH on 12 September 2019 and has been approved at an Extraordinary General Meeting of KFH held on 20 January 2020.

The Board recognises the strategic potential the Offer provides for AUB as the combined entity would be positioned to compete for regional market leadership given increase in size of capital and balance sheet, enhanced underwriting capacity and higher cross-selling opportunities. The Board further believes that the resulting group will, by virtue of its wider regional reach, be well-positioned to generate larger cross-border business flows.

The Offer is subject to several conditions, including the passing of certain resolutions at the extraordinary general meeting of AUB which is expected to be held on 7 May 2020.



## **ACTIONS TO BE TAKEN BY AUB SHAREHOLDERS**

The actions required from AUB Shareholders to accept KFH's Offer are set out in sections 5.8 and 6 of the Offer Document.

If KFH's Offer is accepted by the Initial Offer Closing Date by AUB Shareholders representing at least 85% of the total issued share capital of AUB as at that date, certain resolutions in relation will be presented to AUB Shareholders for their approval at an extraordinary general meeting of AUB.

In order for the Offer to become unconditional and effective, AUB Shareholders must approve, amongst other things, and subject to any legal or regulatory requirements, the conversion of AUB's business in Bahrain to Sharia'a compliant at such extraordinary general meeting of AUB.

*Please refer to section 5.7 of the Offer Document (or paragraph 2.6 of Part IV of this Circular) for the complete list of conditions which must be fulfilled or waived (where applicable) in order for the Offer to become effective.*

## **RECOMMENDATION**

Taking into consideration KFH's statements made in the Offer Document and the opinion of the Professional Independent Adviser that the KFH Offer is fair and reasonable (as set out in section VI of this Circular), THE BOARD IS UNANIMOUSLY OF THE OPINION THAT THE KFH OFFER IS **FAIR AND REASONABLE. ACCORDINGLY, THE BOARD UNANIMOUSLY RECOMMENDS THAT THE AUB SHAREHOLDERS ACCEPT THE KFH OFFER TO ACQUIRE 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF AHLI UNITED BANK B.S.C. BY WAY OF A SHARE SWAP AT AN EXCHANGE RATIO OF 1 NEW KFH SHARE FOR EACH 2.325581 AUB SHARES BY COMPLETING THE ACCEPTANCE AND TRANSFER FORM IN ACCORDANCE WITH ITS TERMS.**

**In case of any doubt, AUB Shareholders are also advised to seek independent professional advice, as deemed appropriate, prior to making any decision.**

Yours faithfully,

On behalf of the Board of Directors

A handwritten signature in blue ink, consisting of several overlapping loops and a final flourish, positioned above a horizontal line.

Chairman of the Board of Directors

## VI. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER



10 March, 2020

The Board of Directors (the "Board")  
Ahli United Bank B.S.C.  
Building 2495  
Road 2832  
Al Seef District 428  
P.O. Box 2424  
Manama, Kingdom of Bahrain

Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the common stock (the "AUB Shareholders") of Ahli United Bank B.S.C. ("AUB") of the Exchange Ratio (defined below) set forth in the offer document issued by Kuwait Finance House K.S.C.P. ("KFH") to the AUB Shareholders and received by the Board on 24 February 2020 (the "Offer Document"). As more fully described in the Offer Document, (i) KFH will make a voluntary conditional offer to acquire 100% of the outstanding shares of the common stock, par value \$0.25 per share, of AUB ("AUB Common Stock") by way of a share swap (the "Offer") and (ii) every 2.325581 outstanding shares of AUB Common Stock that are tendered in acceptance of the Offer will be converted into the right to receive 1 share (the "Exchange Ratio") of the common stock, par value Kuwaiti Dinar 0.10 per share, of KFH ("KFH Common Stock") ((i) and (ii) together, the "Transaction").

In arriving at our opinion, we reviewed the Offer Document and held discussions with certain senior officers, directors and other representatives and advisors of AUB and certain senior officers and other representatives and advisors of KFH concerning the businesses, operations and prospects of AUB and KFH. We examined certain publicly available business and financial information relating to AUB and KFH as well as certain financial forecasts and other information and data relating to AUB and KFH which were provided to or discussed with us by the respective managements of AUB and KFH (including reports prepared by third parties at the instruction of AUB and/or KFH, and on which we relied with the consent of AUB, on among other matters the economic impact of the conversion of AUB's business into a Sharia'a compliant business following the completion of the Transaction), including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of AUB and KFH to result from the Transaction. We reviewed the financial terms of the Transaction as set forth in the Offer Document in relation to, among other things: current and historical market prices and trading volumes of AUB Common Stock and KFH Common Stock; the historical and projected earnings and other operating data of AUB and KFH; and the capitalization and financial condition of AUB and KFH. We considered, to the extent publicly available, the financial terms of certain other transactions which we considered relevant in evaluating the Transaction and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of AUB and KFH. We also evaluated certain potential pro forma financial effects of the Transaction on KFH. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion. The issuance of our opinion has been authorized by our fairness opinion committee.

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided

to or otherwise reviewed by or discussed with us and upon the assurances of the managements of AUB and KFH that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to financial forecasts and other information and data relating to AUB and KFH provided to or otherwise reviewed by or discussed with us, we have been advised by the respective managements of AUB and KFH that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of AUB and KFH as to the future financial performance of AUB and KFH, the potential strategic implications and operational benefits anticipated to result from the Transaction and the other matters covered thereby, and have assumed, with your consent, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Transaction) reflected in such forecasts and other information and data will be realized in the amounts and at the times projected.

We have assumed, with your consent, that the Transaction will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the Transaction, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on AUB, KFH or the contemplated benefits of the Transaction. Our opinion, as set forth herein, relates to the relative values of AUB and KFH. We are not expressing any opinion as to what the value of the KFH Common Stock actually will be when issued pursuant to the Transaction or the price at which the KFH Common Stock will trade at any time. Furthermore, the credit, financial and stock markets are currently experiencing and may continue to experience volatility, and we express no view or opinion as to any potential effects of such volatility on AUB, KFH or the Transaction. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of AUB or KFH nor have we made any physical inspection of the properties or assets of AUB or KFH. We are not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of allowances for losses with respect thereto, and we have not made an independent evaluation of the adequacy of such allowances of AUB and KFH. We were not requested to, and we did not, solicit third party indications of interest in the possible acquisition of all or a part of AUB, nor were we requested to consider, and our opinion does not address, the underlying business decision of AUB to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for AUB or the effect of any other transaction in which AUB or KFH might engage (including the submission of a mandatory tender offer by KFH with respect to the shares of Ahli United Bank K.S.C.P., and the statutory merger of Kuwait Finance House (Bahrain) B.S.C.(c). into AUB, in each case following the completion of the Transaction). We express no view as to, and have not made an independent evaluation or appraisal of, the potential strategic implications of, and the operational costs and benefits (including the amount, timing and achievability thereof) anticipated to result from, the conversion of AUB's business into a Sharia'a compliant business following the completion of the Transaction. We also express no view as to, and our opinion does not address, the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation to any officers, directors or employees of any parties to the Transaction, or any class of such persons, relative to the Exchange Ratio. Our opinion is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing, as of the date hereof. We have also assumed, with your consent, that prior to the Transaction: (a) AUB will pay a dividend in cash to the AUB Shareholders of \$0.05 per share on the pre-dividend total AUB Common Stock, and a dividend-in-kind of AUB Common Stock representing 10% of the pre-dividend total AUB Common Stock; (b) KFH will pay a dividend in cash to its shareholders of Kuwaiti Dinar 0.02 per share on the pre-dividend total KFH Common Stock, and a dividend-in-kind of KFH Common Stock representing 10% of the pre-dividend total KFH Common Stock; (c) neither AUB nor KFH will issue any new stock options or stock grants or any other instruments or securities convertible into, or exchangeable for, shares of, respectively, AUB or KFH; (d) neither AUB nor



KFH will repurchase any of their shares; and (e) except as set out above, neither AUB nor KFH will otherwise change the number of their outstanding shares of common stock.

### **Methodology and Background to our Financial Analysis**

Our financial analysis is summarized in our financial analysis presentation dated 10 March 2020 provided to the Board (the "Summary Financial Analysis"). In preparing this opinion, we have performed a variety of financial and comparative analyses, including those described below, of AUB on a standalone basis relative to KFH on a standalone basis, as well as, at the request of AUB, of AUB on a standalone basis relative to the *pro forma* combined entity following the Transaction taking into account different scenarios of estimated net synergies derived from third party estimates and estimates from KFH management and upon which we relied with the consent of AUB (and on which we express no view as to the amount, timing, and achievability thereof). In the preparation of this opinion, we performed, among others, (i) analysis of trading prices of AUB and KFH over the last twelve months, (ii) analysis of broker target prices for AUB and KFH; (iii) analysis of selected past transactions involving change of control for listed Gulf Cooperation Council ("GCC") banks or Middle Eastern companies, (iv) analysis of price/book value and price/earnings multiples of listed peer group GCC banks, (v) regression analysis of expected profitability of listed peers against their trading multiples, (vi) analysis using the Gordon Growth Model taking into account sustainable returns on equity, long-term growth and cost of equity, and (vii) analysis using the dividend discount model based on forecasts provided by management up to 2021, and also for an extrapolated set of forecasts up to 2023 prepared at the guidance of the Board. The preparation of this opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, this paragraph should not be considered to be, nor does it represent, a comprehensive description of all analyses performed by and underlying our opinion, nor does the order of financial analyses described above represent the relative importance or weight given to those financial analyses by us. Financial data utilized in our analyses, to the extent based on internal financial forecasts and estimates of management, were based on certain financial forecasts and other information relating to AUB and KFH provided to and/or discussed with us by the managements of AUB and/or KFH.

### **Citi Relationships**

Citigroup Global Markets Limited has acted as financial advisor to AUB in connection with the proposed Transaction and will receive a fee for such services, a part of which is payable only in certain circumstances upon the consummation of the Transaction. We and our affiliates in the past have provided, and currently provide, services to AUB, KFH and their respective affiliates unrelated to the proposed Transaction, for which services we and such affiliates have received and expect to receive compensation, including, without limitation, providing minor lending services to AUB and KFH. In light of our existing business relationship with KFH, we have also had preliminary informal contacts with KFH regarding the possibility of providing certain markets, treasury and transaction services to it in the future that are incidental to, or arising as a consequence of, the consummation of the Transaction. We and our affiliates in the past have also provided, and currently provide, lending services to The Public Institution for Social Security (Kuwait) ("PIFSS"), a significant shareholder in AUB; debt capital markets services to the State of Kuwait, a significant indirect shareholder in KFH; and lending, mergers and acquisitions advisory, acquisition finance, equity capital markets and debt capital markets services to Kuwait Investment Authority ("KIA"), a significant shareholder in KFH, and portfolio companies managed and/or advised by KIA, in each case unrelated to the proposed Transaction, for which services we and such affiliates have received and expect to receive compensation. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of AUB, KFH and portfolio companies managed and/or advised by KIA for our own account or



for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with AUB, KFH, PIFSS, the State of Kuwait, KIA and portfolio companies managed and/or advised by KIA, and their respective affiliates.

#### **Opinion**

Our advisory services and the opinion expressed herein are provided for the information of the Board in its independent evaluation of the proposed Transaction, and our opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed Transaction.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair and reasonable, from a financial point of view, to the AUB Shareholders and, based solely on such opinion, it is our advice to the Board that it recommends acceptance of the Offer to the AUB Shareholders, it being understood that the Board is responsible for its own determination with regards to any recommendation to AUB Shareholders. Our opinion is issued solely to the Board pursuant to paragraph TMA-2.2.1 of the Takeovers, Mergers and Acquisitions Module, Volume 6 of the CBB Rulebook.

This opinion is rendered in the English language. If this opinion is translated into any language other than English and in the event of any discrepancy between the English language and any such other language version, the English language version shall prevail.

Very truly yours,

  
CITIGROUP GLOBAL MARKETS LIMITED

## APPENDIX A – INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION

### 1 BUSINESS OVERVIEW

#### 1.1 AUB

**1.2** AUB was established in Bahrain on 31 May 2000 following a merger between The United Bank of Kuwait PLC (“**UBK**”) and Al-Ahli Commercial Bank B.S.C. (“**ACB**”) pursuant to which UBK and ACB each became wholly owned subsidiaries of AUB. AUB was originally incorporated as a closed company and was converted to a public shareholding company on 12 July 2000 by Amiri Decree Law 16 /2000. AUB is regulated by the CBB and operates under a retail banking licence issued under the CBB’s integrated licensing framework.

#### 1.3 Market Price of AUB

The VWAP for AUB shares up to six months prior to and including the Latest Practicable Date is as follows:

VWAP Period	Bahrain Bourse VWAP (USD per AUB Share)	Boursa Kuwait VWAP (KWD per AUB Share)
1 month	0.999	0.313
2 months	1.052	0.322
3 months	1.035	0.318
4 months	0.985	0.311
5 months	0.976	0.307
6 months	0.963	0.299

The market price of AUB on certain key dates was given below:

Event	Event Date	Bahrain Bourse Closing Price (USD per AUB Share)	Boursa Kuwait Closing Price (KWD per AUB Share)
Last Business Day prior to the approach by KFH to AUB to consider approving the execution of the MOU	15 July 2018	0.600*	0.187*
Last Business Day prior to the Initial Announcement Date	19 July 2018	0.614*	0.191*

<b>Event</b>	<b>Event Date</b>	<b>Bahrain Bourse Closing Price (USD per AUB Share)</b>	<b>Boursa Kuwait Closing Price (KWD per AUB Share)</b>
Issuance of Firm Intention	5 February 2020	1.100	0.333
Issuance of Offer Document	24 February 2020	1.064	0.324
Latest Practicable Date	10 March 2020	0.835	0.250

\* Share price adjusted for 10% bonus share issuance in March 2019.

The closing prices for the last trading day of the month for the period commencing 6 months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular are as follows:

<b>Date</b>	<b>Bahrain Bourse Closing Price (USD per AUB Share)</b>	<b>Boursa Kuwait Closing Price (KWD per AUB Share)</b>
30 Sep 2019	0.880	0.268
31 Oct 2019	0.890	0.268
28 Nov 2019	0.899	0.278
31 Dec 2019	1.050	0.323
30 Jan 2020	1.112	0.340
24 Feb 2020	1.064	0.324
27 Feb 2020	1.065	Market Closed
Latest Practicable Date	0.835	0.250

The highest and lowest closing prices during the period commencing 6 months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular are as follows:

	<b>Date</b>	<b>Bahrain Bourse Closing Price (USD per AUB Share)</b>
Highest closing price	2 February 2020	1.115
Lowest closing price	9 March 2020	0.819

	<b>Date</b>	<b>Boursa Kuwait Closing Price (KWD per AUB Share)</b>
Highest closing price	29 January 2020	0.340
Lowest closing price	9 March 2020	0.247

## 2 MAJOR SHAREHOLDERS (as at the Latest Practicable Date)

Shareholder Name	% Ownership
Public Institution for Social Security, Kuwait	18.67%
Social Insurance Organisation, Bahrain	10.01%
Tamdeen Investment Company	7.51%
Total shareholding of shareholders owning 5% or above	36.19%
Other Shareholders	63.81%

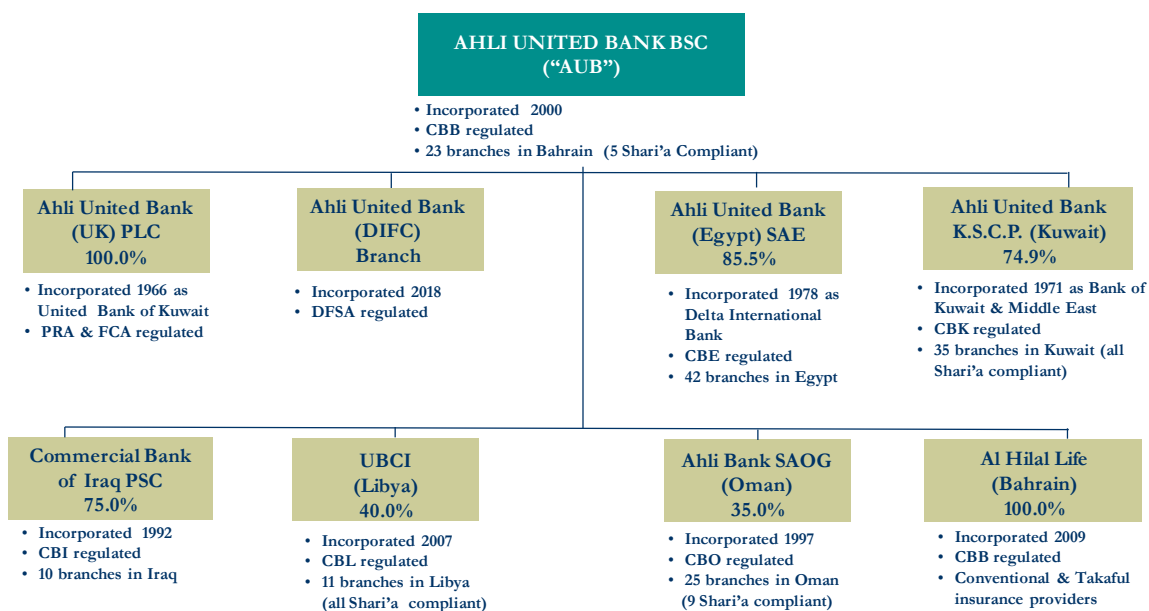
## 3 GROUP STRUCTURE

The following table depicts the subsidiaries, associated companies and branches of AUB as at the Latest Practicable Date:

Legal Entity Name	AUB Shareholding %	Country of Incorporation
Subsidiaries		
Ahli United Bank (U.K.) PLC	100.0%	United Kingdom
Ahli United Bank K.S.C.P.	74.9%	Kuwait
Ahli United Bank (Egypt) S.A.E.	85.5%	Egypt
Commercial Bank of Iraq P.S.C.	75.0%	Iraq
Al Hilal Life B.S.C.	100.0%	Bahrain
Associates		
Ahli Bank S.A.O.G.	35.0%	Oman
United Bank for Commerce and Investment S.A.L. (UBCI)	40.0%	Libya
Foreign Branch		
DIFC – Dubai	–	United Arab Emirates



## AUB Group structure chart



## 4 DIRECTORS OF THE OFFEREE

As of the date of this Circular, the Directors of AUB are:

Name of Director	Title
Mr. Meshal AbdulAziz Alothman	Chairman
Mr. Mohammad Jassim Al-Marzooq	Deputy Chairman
Mr. Mohammad Fouad Al-Ghanim	Board Member
Mr. Abdulghani M.S.Y Behbehani	Board Member
Mr. Ahmad Ghazi Al-Abduljalil	Board Member
Mr. Abdullah Al Mudhaf	Board Member
Mr. Jamal Abdel Razzaq Al-Naif	Board Member
Mr. Mahmoud Difrawy	Board Member
Mr. Khalid Mohamed Najibi	Board Member
Mr. Adel A. El-Labban	Group CEO & Managing Director

## 4. DIRECTORS OF THE OFFEREE (continued)

A brief description of each Director is set out below.

### • Mr. Meshal AbdulAziz Alothman

Non-Executive Director. Director since 19 February 2019. Chairman of the Board and the Executive Committee. Holds a Bachelor of Science, Marketing with a Minor in International Studies from the University of South Florida, 1996.

Chairman of the Board of Directors, Ahli United Bank (UK) plc, UK; Director General, The Public Institution for Social Security, Kuwait; Member of The Board of Directors, The Public Institution for Social Security, Kuwait; Member of The Investment Committee, The Public Institution for Social Security, Kuwait; Chairman of The Board of Directors, Wafra Intervest Corporation, USA; Member of The Board of Directors, The Industrial Bank of Kuwait, Kuwait; Member of The Board of Directors, Kuwait Awqaf Public Foundation, Kuwait; Chairman of the Board of Directors, Kuwait Medical City Co., Kuwait. Formerly: Deputy Director General for Investment and Operations, The Public Institution For Social Security, Kuwait; Chief Investment Officer, The Public Institution For Social Security, Kuwait; Member of The Board of Directors, Kuwait Ports Authority, Kuwait; Member of The Investment Committee, Kuwait Fund for Arab Economic Development, Kuwait. He has held many key positions in the investment Department for 20 years in the Kuwait fund for Arab Economic Development. 23 years of experience covering financial services and investment.

- **Mr. Mohammad Jassim Al-Marzooq**

Non-Executive Director. Director since 27 March 2006. Deputy Chairman of the Board, and a Member of the Executive Committee. Holds a Bachelor of Commerce-Finance Major from Kuwait University, 1991.

Chairman, Tamdeen Holding Group, Kuwait; Chairman, Tamdeen Shopping Centres Co., Kuwait; Chairman, Tamdeen Bahraini Real Estate Co., Bahrain; Honorary Chairman of Arabian Horse Centre (Kuwait State Stud), Kuwait; Member of Advisory Committee of National Fund for Small and Medium Enterprise Development, Kuwait.

Formerly: Board Member of Silk Road City & Islands Authority, Kuwait; Deputy Chairman and Member of the Audit & Compliance Committee of Ahli United Bank Limited, Dubai; Member, The Supreme Council for Planning and Development, Kuwait; Chairman of the Board of Trustees Arabian Horse Centre (Kuwait State Stud), Kuwait; CEO, Tamdeen Real Estate Co., Kuwait; Chairman and CEO, Tamdeen Real Estate Co., Kuwait; Board Member, Global Omani Development & Investment Co., Sultanate of Oman; Board Member, Al Maalem Holding Co., Bahrain; Board Member, Fateh Al Khear Holding Co., Kuwait; Board Member, Ahli United Bank, Bahrain; Deputy Chairman, Tamdeen Shopping Centers Co., Kuwait; Vice Chairman, Tamdeen Investment Co., Kuwait; Board Member, Ahli United Bank (Former Bank Of Kuwait and Middle East)- Kuwait; Board Member, Al-Ahli Bank of Kuwait, Kuwait; Board Member, Kuwait National Cinema Co., Kuwait; Board Member of Arab Financial Consulting Co., Kuwait; Chairman and Managing Director, Tamdeen Real Estate Co., Kuwait; CEO, Real Estate Investment Fund, Kuwait; and Board Member, The Public Warehousing Co., Kuwait. 28 years of experience, covering financial services and real estate sectors.

- **Mr. Mohammad Fouad Al-Ghanim**

Non-Executive Director. Director since 29 March 2003. Member of the Executive Committee. Holds a degree, in Business Administration from Kuwait University, 1993.

Vice Chairman and Group Chief Executive Officer of the Fouad Alghanim & Sons Group of Companies, Kuwait; Chairman, Ahli United Bank (Egypt) SAE, Egypt; Chairman, Fluor Kuwait Co. KSC, Kuwait; Board Member, Tamdeen Real Estate Company KSCC, Kuwait; Member of the Supervisory Board, Jet Alliance Holding AG, Austria. Formerly: Board Member, Ahli United Bank Limited, Dubai.

Mr. Al-Ghanim is a respected member of the international business community including World Economic Forum (WEF), The World Economic Forum is an independent international organisation committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas

He is an active member in various business forums in Kuwait and abroad and enjoys a prominent position in Kuwaiti society. He is also personally associated with various philanthropic activities particularly with a focus on children's health, education and refugees.

30 years of experience covering corporate management operations, contracting, manufacturing, trade, real estate and financial.

- **Mr. Abdulghani M.S.Y Behbehani**

Independent Director. Director since 29 March 2016. Chairman of the Audit & Compliance Committee and the Nominating Committee and a Member of the Compensation Committee. Holds a Bachelor of Science in Mechanical Engineering from Kuwait University, 1984.

Vice Chairman, Noor Financial Investment Co. KSCC, Kuwait; Board Member, Al-Alfain Printing, Publishing & Distribution Co. KSCC, Kuwait; Board Member, Kuwait Insurance Co. SAK, Kuwait; Board Member United Beverage Co. KSCC, Kuwait; Chairman, Noor Jordan Kuwait Financial Investment Co., Jordan; Chairman, Hotels Global Group, Jordan; Director, Mohammad Saleh & Reza Yousuf Behbehani Co. W.L.L, Kuwait; Director, Behbehani Capital Co. for Selling & Purchasing Shares & Bonds W.L.L, Kuwait; Manager, Shereen Motor Company W.L.L, Kuwait; Manager, Behbehani Tire Center Company SPC, Kuwait. Former Board Member, Al-Ahli Bank of Kuwait KSCP, Kuwait. 36 years of experience covering financial services, trade, engineering and real estate sectors.

- **Mr. Ahmad Ghazi Al-Abduljalil**

Non-Executive Director. Director since 29 March 2016. Member of the Audit & Compliance Committee and the Nominating Committee.

Holds a Master's Certificate in Project Management from The George Washington University, School of Business, 2009; Certified Investment and Derivatives Auditor, 2009; Certified International Financial Accountant, 2014; Certified Professional Internal Auditor, 2015; Certified Merger & Acquisition Specialist, 2016; Investment Diploma from American University of London, 2009; Bachelor of Political Science from Kuwait University, 1999; Associate's Certificate in Project Management from The George Washington University, School of Business, 2008.

Financial Advisor to Director General, The Public Institution for Social Security, Kuwait; Board Member, Petro Link Holding Co. (K.S.C.C), Kuwait; Vice Chairman, Kuwait Medical City Co. (K.S.C.C), Kuwait; Member of The International Centre for Settlement of Investment Disputes (ICSID) Panels of Arbitrators and of Conciliators, Washington D.C. Formerly: Advisory Board Member, Markaz Real Estate Fund, Kuwait; Board Member, Al Salmiya Group for Enterprise Development Co. (K.S.C.C), Kuwait; Chairman, United Marketing and Organizing Exhibitions (K.S.C.C), Kuwait; Vice Chairman, Arab Gulf Company for food & Supermarket (S.A.K.C), Kuwait.

21 years of experience covering financial services, trading, real estate and manufacturing sectors.

- **Mr. Abdullah Al-Mudhaf**

Independent Director. Director since 29 March 2018. Chairman of the Compensation Committee and a member of the Audit & Compliance Committee and Nominating Committee. Holds a Bachelor Degree in Arts Business Administration (E-Commerce & Info System) from Seattle University USA, 2005.

Managing Director and Partner, AM Holding Group, Kuwait; Executive Director, Ruby's Café Restaurant Management and Catering Services, Kuwait; General Manager, Big Bang Restaurant Management and Catering Services, Kuwait. Formerly: Independent Board Member, YIACO Medical

Company, Kuwait; Senior Director, International Brokerage Division, Kuwait & Middle East Financial Investment Company (KMEFIC), Kuwait. 14 years of experience covering financial services and Entrepreneur - Private Sector Development.

- **Mr. Jamal Abdel Razzaq Al-Naif**

Independent Director. Director since 29 March 2018. Member of the Audit & Compliance Committee and the Nominating Committee. Holds Bachelor of Science Degree in (Economics) from Bradley University, USA 1980.

Independent Director, Lakemore Partners (DIFC) Limited, Dubai. Formerly: Regional Head, Middle East, Africa & Central Asia, Pictet Asset Management, DIFC, Dubai; Managing Partner, Safanad SA DIFC, Dubai; Managing Director, Regional Head, MENA, Credit Suisse Asset Management, Dubai; Member of Credit Suisse MENA Operating Committee, Dubai; Managing Director, Regional Head MENA, Citi Alternative Investments, Citibank N.A. London; Founder and Managing Partner Al-Naif Consulting, Amman, Jordan; Head of Middle East Fixed Income Sales, Lehman Brothers, London; VP, Head of European and Middle East Sales, Head of Emerging Market Sales Europe, Member of Citibank Global Capital Markets Committee, Citibank N.A., London; VP, Head of Corporate Treasury, Gulf International Bank B.S.C., Bahrain; AVP, Middle East Currencies Trading and Head of Corporate Treasury Desk, Citibank N.A. Bahrain, Executive Trainee, Citibank N.A. Treasury, Bahrain. 39 years of experience in financial service sector.

- **Mr. Mahmoud Difrawy**

Independent Director. Director since 29 March 2018. Member of the Audit & Compliance Committee and Nominating Committee and a member of the Compensation Committee. Holds a BA Degree in Arts (Economics) from Rutgers University, New Jersey, USA 1979.

Formerly: Independent Director, Kuwait Finance House, Bahrain; Executive Director, Difrawy Financial Consulting LTD and Senior Advisor to JP Morgan, MENA, (UK); Managing Director & Vice Chairman, MENA Region, J.P Morgan, London; Chairman, Asset Management, MENA, London; Head of Middle East Region, JP Morgan Private Bank, London; Managing Director, Chase Manhattan Bank, Bahrain; Board member, Saudi Investment Bank, Riyadh, Saudi Arabia; Head of Middle East Area, Gulf International Bank, Bahrain. 45 years of experience covering financial services.

- **Mr. Khalid Mohamed Najibi**

Non-Executive Director. Director since 23 April 2019. Member of Executive Committee. Holds a Bachelor Degree in Business Administration (with major in Finance) from BA Schiller International University, UK, 1990; Passed CPA 1993 (from The American Institute of CPA) USA.

Founding Member and Managing Director, Najibi Investment Co. B.S.C(c), Director/Co-Owner, Al Souq Real Estate Co., First Vice Chairman, Bahrain Chamber of Commerce and Industry (BCCI) (NGO), Board Member, Social Insurance Organisation (SIO), Chairman, Osool Asset Management B.S.C. (C), Chairman, Bahrain Marina Co., Board Member, Ahli United Bank (UK) PLC, and Board Member, Bahrain Tourism and Exhibitions Authority (BTEA), Kingdom of Bahrain.

Formerly: Vice Chairman, Managing Director/ Chief Executive Officer, Capital Management House B.S.C. (c), Vice Chairman of Ibdar Bank, Board Member, & Chairman of Executive Committee of Bahrain Islamic Bank, Board Member of Gulf Finance House, Board Member of First Energy Bank, Board Member of QInvest Regulated by QFC in Qatar, Board Member & Member of Executive Committee of Arbah Capital Regulated by CMA in Kingdom of Saudi Arabia. Also, Board Member & Chairman of Executive Committee of Crown Industries & Bahrain Scrapmould, Board Member of

Skaugen Gulf Petchem Carriers. 29 years of experience covering Investments & Real Estate development, Islamic banking both wholesale and retail.

- **Mr. Adel A. El-Labban**

Executive Director. Director since 30 July 2000. Member of the Executive Committee. Holds a Masters in Economics (Highest Honors) from the American University, Cairo, 1980, Bachelors in Economics (Highest Honors) from American University, Cairo, 1977.

Group Chief Executive Officer & Managing Director, Ahli United Bank BSC, Bahrain; Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Vice Chairman, Middle East Financial Investment Co, Saudi Arabia; Director, Ahli United Bank (UK) Plc; and Director, Ahli United Bank KSCP, Kuwait. Formerly: First Deputy Chairman, Ahli Bank SAOG, Oman; Deputy Chairman, Ahli United Bank, Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; Director, Kuwait & Middle East Financial Investment Co, Kuwait; Director, Bahrain Association of Banks, Bahrain; Chief Executive Officer and Director, United Bank of Kuwait PLC, UK; Managing Director, Commercial International Bank, Egypt SAE; Chairman, Commercial International Investment Company, Egypt; Vice President, Corporate Finance, Morgan Stanley, USA; and Assistant Vice President, Arab Banking Corporation, Bahrain. 41 years of experience in financial service sector.

## **5 SHARE CAPITAL**

### **5.1 Capital structure**

At the Latest Practicable Date, AUB has one class of shares, being ordinary shares. The total authorised share capital of AUB is USD 2,500,000,000.00 divided into 10,000,000,000 ordinary shares, at a nominal value of USD0.25 for each share. The issued and fully paid up capital of AUB consists of 8,774,444,281 shares as of the Latest Practicable Date of USD0.25 each.

The AUB Shares are quoted and listed on the Bahrain Bourse and Boursa Kuwait and all the shares carry equal rights as to dividend, vote at shareholders' meetings and any other matter of shareholder concern.

### **5.2 Shares issued since end of last financial year**

No AUB shares have been issued from 31 December 2019 up to and including the date of this Circular.

### **5.3 Outstanding instruments convertible into, rights to subscribe for an option in respect of, securities being offered for or which carry voting rights affecting the AUB Shares**

As at the Latest Practicable Date, there are no outstanding options, warrants or conversion rights affecting the AUB Shares.

AUB has an Employee Share Purchase Plan ("**ESPP**") and a Mandatory Share Plan ("**MSP**"), which were established in 2005 and 2014 respectively, after obtaining all necessary approvals. The ESPP and MSP are currently being wound down and all MSP options have been exercised. In both cases, the relevant winding down measures, including the transfer of AUB Shares out of the ESPP and MSP structures, are targeted to be completed on or before the Last Trading Date and, in any event, will not impact the issued share capital of AUB (being 8,774,444,281 issued shares, as at the Latest Practicable Date).

## 5.4 Treasury shares

AUB has disposed of 23,797,853 treasury shares in the period commencing 19 November 2019 through 11 December 2019 and as at the Latest Practicable Date holds no treasury shares.

## 6 DISCLOSURE OF INTERESTS

### 6.1 Shareholdings

#### 6.1.1 Interests of and dealings by AUB in the shares of KFH

AUB has no interest in the shares of KFH as at the Latest Practicable Date and has not undertaken any dealings in the shares of KFH in the last six months prior to the Latest Practicable Date.

#### 6.1.2 Interests of and dealings by AUB Directors in AUB and KFH shares

The following 7 Directors of AUB have direct or indirect shareholdings in the AUB Shares and/or the shares of KFH as at the Latest Practicable Date:

Name of Director or AUB Shareholder representative Director	Number of AUB Shares *	Number of shares in KFH
Public Institution for Social Security (Kuwait) as corporate Director of AUB, represented by Mr. Ahmed Ghazi Al-Abduljaleel	1,638,615,873	412,387,713
Social Insurance Organisation as corporate Director of AUB, represented by Mr. Khalid Mohamed Najibi	878,108,733	0
Wafra International Investment Co. K.S.C.P. as corporate Director of AUB, represented by Mr. Meshal AbdulAziz Alothman	127,213,754	0
Mohammad Jassim Al-Marzooq	659,144,589	0
Mohammad Fouad Al-Ghanim	388,947,158	0
Abdulghani M.S.Y Behbehani	210,388,416	0
Abdullah Al Mudhaf	30,677,791	0
Mr. Khalid Mohamed Najibi	240,000	0

\* Includes direct and indirect shareholdings (where indirect shareholdings include shareholdings of persons under guardianship and/or control of a Director of AUB).

Save for as set out below, no member of the AUB Board has purchased or sold any AUB Shares or shares in KFH in the last six months prior to the Latest Practicable Date. On 5 March 2020, Mr. Khalid Mohamed Najibi purchased 30,000 AUB Shares at an average price of USD1.00 per AUB Share.

### **6.1.3 Interests of and dealings by the Professional Independent Adviser**

(i) In AUB

The Professional Independent Adviser has no direct or deemed interest in the AUB Shares as at the Latest Practicable Date and has not dealt on its own account for value in AUB Shares during the period commencing six months prior to the Latest Practicable Date.

(ii) In KFH

The Professional Independent Adviser has no direct or deemed interest in the KFH Shares as at the Latest Practicable Date and has not dealt on its own account for value in KFH Shares during the period commencing six months prior to the Latest Practicable Date.

### **6.2 AUB Directors' Intentions**

Each member of the AUB Board as listed in paragraph 6.1.2 above intends to ACCEPT the Offer.

## 6.3 Financial Disclosures



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### INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.

#### Report on the Summary Consolidated Financial Statements

##### *Opinion*

The summary consolidated financial statements of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheets as at 31 December 2019, 2018 and 2017, the consolidated statements of income, comprehensive income, cash flow and changes in equity for the years then ended, and the related note, are derived from the complete audited consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements for the years ended 31 December 2019, 2018 and 2017, on the basis described in note 1.

##### *Summary consolidated financial statements*

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards (IFRS). Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's reports thereon.

##### *The audited consolidated financial statements and our reports thereon*

We expressed unmodified audit opinion on the audited consolidated financial statements in our reports dated 7 February 2020, 19 February 2019 and 20 February 2018. The audited consolidated financial statements and the summary consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our reports on the audited consolidated financial statements.

##### *Management's responsibility for the summary consolidated financial statements*

Management is responsible for the preparation of the summary consolidated financial statements in accordance with note 1.

##### *Auditor's responsibility*

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

8 March 2020  
Manama, Kingdom of Bahrain



Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December 2019, 2018 and 2017

	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Interest income	1,843,953	1,655,750	1,379,174
Interest expense	892,453	715,226	502,704
Net interest income	<b>951,500</b>	<b>940,524</b>	<b>876,470</b>
Fees, commissions and others	127,305	128,888	145,013
Trading income	44,081	39,068	35,239
Investment income and others	81,757	61,129	39,399
Share of profit from associates	30,886	40,941	23,251
Fees and other income	<b>284,029</b>	<b>270,026</b>	<b>242,902</b>
<b>OPERATING INCOME</b>	<b>1,235,529</b>	<b>1,210,550</b>	<b>1,119,372</b>
Provision for credit losses and others	54,417	86,222	88,950
<b>NET OPERATING INCOME</b>	<b>1,181,112</b>	<b>1,124,328</b>	<b>1,030,422</b>
Staff costs	199,077	196,839	193,831
Depreciation	34,454	22,269	20,824
Other operating expenses	120,218	109,110	108,245
<b>OPERATING EXPENSES</b>	<b>353,749</b>	<b>328,218</b>	<b>322,900</b>
<b>PROFIT BEFORE TAX</b>	<b>827,363</b>	<b>796,110</b>	<b>707,522</b>
Tax expense and zakat	38,538	43,745	41,008
<b>NET PROFIT FOR THE YEAR</b>	<b>788,825</b>	<b>752,365</b>	<b>666,514</b>
Net profit attributable to non-controlling interests	58,324	54,831	47,799
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>	<b>730,501</b>	<b>697,534</b>	<b>618,715</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:</b>			
Basic and diluted earnings per ordinary share (US cents)	7.9	8.3	7.7

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>Net profit for the year</b>	<b>788,825</b>	<b>752,365</b>	<b>666,514</b>
<b>Other comprehensive income (OCI)</b>			
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>			
Net change in fair value of equity investments measured at fair value through OCI	(6,307)	1,237	(2,289)
Net change in pension fund reserve	11,107	5,078	2,410
Net change in property revaluation reserve	227	(457)	(750)
<b>Items that may be reclassified subsequently to consolidated statement of income</b>			
Foreign currency translation adjustments	39,949	(13,852)	37,424
Net change in fair value of debt instruments measured at fair value through OCI	24,537	(20,915)	-
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	1,126	(18,523)	-
Net change in fair value of cash flow hedges	(20,116)	9,638	(2,876)
<b>Other comprehensive income / (loss) for the year</b>	<b>50,523</b>	<b>(37,794)</b>	<b>33,919</b>
<b>Total comprehensive income for the year</b>	<b>839,348</b>	<b>714,571</b>	<b>700,433</b>
Total comprehensive income attributable to non-controlling interests	67,080	52,072	53,652
<b>Total comprehensive income attributable to the owners of the Bank</b>	<b>772,268</b>	<b>662,499</b>	<b>646,781</b>

**Ahli United Bank B.S.C.**  
**CONSOLIDATED BALANCE SHEET**  
 At 31 December 2019, 2018 and 2017

	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>ASSETS</b>			
Cash and balances with central banks	1,366,978	1,390,470	809,986
Treasury bills and deposits with central banks	2,202,340	1,918,727	2,576,352
Deposits with banks	4,683,260	3,061,818	2,469,751
Loans and advances	20,742,360	19,503,961	19,498,702
Non-trading investments	9,133,881	7,568,528	6,002,410
Investment in associates	315,011	318,802	304,020
Investment properties	229,803	265,794	256,242
Interest receivable and other assets	823,714	764,094	616,920
Premises and equipment	295,549	237,064	226,672
Goodwill and other intangible assets	487,155	478,319	480,830
<b>TOTAL ASSETS</b>	<b>40,280,051</b>	<b>35,507,577</b>	<b>33,241,885</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	5,023,915	3,752,792	3,943,233
Borrowings under repurchase agreements	2,891,532	1,832,134	1,272,758
Customers' deposits	25,518,123	23,660,035	22,009,857
Interest payable and other liabilities	1,457,090	1,097,911	912,679
Subordinated liabilities	27,862	192,697	215,204
<b>TOTAL LIABILITIES</b>	<b>34,918,522</b>	<b>30,535,569</b>	<b>28,353,731</b>
<b>EQUITY</b>			
Ordinary share capital	2,193,611	1,992,541	1,889,213
Treasury shares	-	(13,190)	(11,661)
Reserves	2,071,916	1,929,350	1,938,070
Equity attributable to the owners	<b>4,265,527</b>	<b>3,908,701</b>	<b>3,815,622</b>
Perpetual Tier 1 Capital Securities	600,000	600,000	600,000
Non-controlling interests	496,002	463,307	472,532
<b>TOTAL EQUITY</b>	<b>5,361,529</b>	<b>4,972,008</b>	<b>4,888,154</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>40,280,051</b>	<b>35,507,577</b>	<b>33,241,885</b>

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December 2019, 2018 and 2017

	2019	2018	2017
	US\$ '000	US\$ '000	US\$ '000
<b>OPERATING ACTIVITIES</b>			
Profit before tax	827,363	796,110	707,522
Adjustments for:			
Depreciation	34,454	22,269	20,824
Investment income	(68,548)	(53,464)	(39,399)
Provision for credit losses and others	54,417	86,222	88,950
Fair value of Employee Share Purchase Plan (ESPP) charge	1,851	4,435	3,921
Share of profit from associates	(30,886)	(40,941)	(23,251)
Operating profit before changes in operating assets and liabilities	818,651	814,631	758,567
Changes in:			
Mandatory reserve deposits with central banks	89,587	(160,692)	(78,832)
Treasury bills and deposits with central banks	101,972	1,222,886	(111,506)
Deposits with banks	(1,137,163)	(1,018,384)	(183,879)
Loans and advances	(1,294,825)	(341,445)	(978,489)
Interest receivable and other assets	(74,576)	(122,654)	121,235
Deposits from banks	1,271,123	(190,441)	664,195
Borrowings under repurchase agreements	1,059,398	559,376	574,530
Customers' deposits	1,858,088	1,650,178	306,499
Interest payables and other liabilities	21,936	109,909	66,038
Net cash generated from operations	2,714,191	2,523,364	1,138,358
Income tax paid	(36,374)	(44,507)	(30,997)
<b>Net cash from operating activities</b>	<b>2,677,817</b>	<b>2,478,857</b>	<b>1,107,361</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments	(3,292,698)	(3,981,827)	(2,220,817)
Proceeds from sale or redemption of non-trading investments	2,127,545	2,485,519	1,817,326
Net decrease / (increase) in investment properties	40,529	7,246	(124,221)
Net increase in premises and equipment	(45,913)	(33,118)	(36,732)
Dividends received from associates	13,603	12,955	12,955
Net cash used in investing activities	<b>(1,156,934)</b>	<b>(1,509,225)</b>	<b>(551,489)</b>
<b>FINANCING ACTIVITIES</b>			
Movement in subsidiaries	181	-	(1,490)
Distribution on Perpetual Tier 1 Capital Securities	(38,500)	(38,500)	(38,500)
Repayment of subordinated liabilities	(165,000)	(22,507)	(21,778)
Dividends and other appropriations paid	(390,585)	(333,863)	(302,647)
Dividends paid to non-controlling interests	(31,706)	(26,179)	(15,414)
Issuance of ESPP and Mandatory Purchase Plan (MSP) shares	4,200	17,797	12,517
Movement in treasury shares	21,950	(1,529)	(164)
Net cash used in financing activities	<b>(599,460)</b>	<b>(404,781)</b>	<b>(367,476)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>921,423</b>	<b>564,851</b>	<b>188,396</b>
Net foreign exchange difference	14,536	(4,609)	31,213
Cash and cash equivalents at 1 January	3,088,964	2,528,722	2,309,113
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>4,024,923</b>	<b>3,088,964</b>	<b>2,528,722</b>
<b>Additional cash flow information:</b>			
Interest received	1,840,294	1,579,594	1,398,430
Interest paid	854,144	631,689	518,651

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	<i>Attributable to the owners</i>											
	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Reserves</i>			<i>Equity attributable to the owners</i>	<i>Perpetual Tier 1 Capital Securities</i>	<i>Non- controlling interests</i>	<i>Total</i>
						<i>Proposed appro- priations</i>	<i>Other reserves</i>	<i>Total reserves</i>				
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Balance at												
1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	<b>4,972,008</b>
Distribution on Perpetual Tier 1 Capital Securities	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	<b>(27,500)</b>
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	<b>(11,000)</b>
Ordinary share dividend paid	-	-	-	-	1,082	(398,838)	-	(397,756)	(397,756)	-	-	<b>(397,756)</b>
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(31,706)	<b>(31,706)</b>
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	<b>(1,000)</b>
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-	-
Additional shares issued	1,651	-	2,549	-	-	-	-	2,549	4,200	-	-	<b>4,200</b>
Sale of treasury shares	-	13,190	-	-	-	-	8,760	8,760	21,950	-	-	<b>21,950</b>
Fair value amortisation of share based transactions	-	-	-	-	1,851	-	-	1,851	1,851	-	-	<b>1,851</b>
Transfer from OCI reserve	-	-	-	-	(1,195)	-	-	(1,195)	(1,195)	-	(79)	<b>(1,274)</b>
Movement in associates	-	-	-	-	(7,773)	-	-	(7,773)	(7,773)	-	-	<b>(7,773)</b>
Movement in subsidiaries	-	-	21	-	-	-	-	21	21	-	160	<b>181</b>
Total comprehensive income for the year	-	-	-	-	730,501	-	41,767	772,268	772,268	-	67,080	<b>839,348</b>
Transfer to statutory reserve	-	-	-	73,050	(73,050)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares	-	-	-	-	(438,722)	438,722	-	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>2,193,611</b>	<b>-</b>	<b>766,230</b>	<b>659,531</b>	<b>611,207</b>	<b>439,722</b>	<b>(404,774)</b>	<b>2,071,916</b>	<b>4,265,527</b>	<b>600,000</b>	<b>496,002</b>	<b>5,361,529</b>

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	<i>Attributable to the owners</i>										
	<i>Ordinary share capital US\$ '000</i>	<i>Treasury shares US\$ '000</i>	<i>Share premium US\$ '000</i>	<i>Statutory reserve US\$ '000</i>	<i>Retained earnings US\$ '000</i>	<i>Reserves</i>			<i>Perpetual Tier 1 Capital Securities US\$'000</i>	<i>Non-controlling interests US\$'000</i>	<i>Total US\$'000</i>
						<i>Proposed appro- priations US\$ '000</i>	<i>Other reserves US\$ '000</i>	<i>Total reserves US\$'000</i>			
Balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	799,366	342,578	(474,910)	1,938,070	600,000	472,532	4,888,154
Transition adjustment on adoption of IFRS 9	-	-	-	-	(249,543)	-	54,644	(194,899)	-	(30,432)	(225,331)
Restated balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	549,823	342,578	(420,266)	1,743,171	600,000	442,100	4,662,823
Distribution on Perpetual Tier 1 Capital Securities	-	-	-	-	(27,500)	-	-	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(8,240)	-	-	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid	-	-	-	-	818	(341,578)	-	(340,760)	-	-	(340,760)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(26,179)	(26,179)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	94,883	-	-	-	(94,883)	-	-	(94,883)	-	-	-
Additional shares issued	8,445	-	9,352	-	-	-	-	9,352	-	-	17,797
Purchase of treasury shares	-	(1,529)	-	-	-	-	-	-	-	-	(1,529)
Fair value amortisation of share based transactions	-	-	-	-	4,435	-	-	4,435	-	-	4,435
Transfer from OCI reserve	-	-	-	-	(7,633)	-	-	(7,633)	-	(305)	(7,938)
Movement in associates	-	-	-	-	(10,091)	-	-	(10,091)	-	(1,621)	(11,712)
Total comprehensive income for the year	-	-	-	-	697,534	-	(35,035)	662,499	-	52,072	714,571
Transfer to statutory reserve	-	-	-	69,753	(69,753)	-	-	-	-	-	-
Proposed dividend on ordinary shares	-	-	-	-	(398,838)	398,838	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>1,992,541</b>	<b>(13,190)</b>	<b>763,660</b>	<b>586,481</b>	<b>634,672</b>	<b>399,838</b>	<b>(455,301)</b>	<b>1,929,350</b>	<b>600,000</b>	<b>463,307</b>	<b>4,972,008</b>

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	<i>Attributable to the owners</i>										
	<i>Ordinary share capital US\$ '000</i>	<i>Treasury shares US\$ '000</i>	<i>Share premium US\$ '000</i>	<i>Statutory reserve US\$ '000</i>	<i>Retained earnings US\$ '000</i>	<i>Reserves</i>			<i>Perpetual Tier 1 Capital Securities US\$ '000</i>	<i>Non- controlling interest US\$ '000</i>	<i>Total US\$ '000</i>
						<i>Proposed appro- priations US\$ '000</i>	<i>Other reserves US\$ '000</i>	<i>Total reserves US\$ '000</i>			
Balance at 1 January 2017	1,711,322	(11,497)	747,583	454,856	791,395	310,144	(502,976)	1,801,002	600,000	438,675	4,539,502
Distribution on Perpetual Tier 1 Capital Securities	-	-	-	-	(27,500)	-	-	(27,500)	-	-	(27,500)
Ordinary share dividend paid	-	-	-	-	733	(309,144)	-	(308,411)	-	-	(308,411)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(15,414)	(15,414)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	171,747	-	-	-	(171,747)	-	-	(171,747)	-	-	-
Additional shares issued	6,144	-	6,373	-	-	-	-	6,373	-	-	12,517
Purchase of treasury shares	-	(164)	-	-	-	-	-	-	-	-	(164)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(8,240)	-	-	(8,240)	-	(2,760)	(11,000)
Transfer of property revaluation reserve on sale of property	-	-	-	-	243	-	-	243	-	-	243
Fair value amortisation of share based transactions	-	-	-	-	3,921	-	-	3,921	-	-	3,921
Transfer from OCI reserve	-	-	-	-	(3,704)	-	-	(3,704)	-	-	(3,704)
Movement in subsidiaries	-	-	352	-	-	-	-	352	-	(1,621)	(1,269)
Total comprehensive income for the year	-	-	-	-	618,715	-	28,066	646,781	-	53,652	700,433
Transfer to statutory reserve	-	-	-	61,872	(61,872)	-	-	-	-	-	-
Proposed dividend on ordinary shares	-	-	-	-	(341,578)	341,578	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>1,889,213</b>	<b>(11,661)</b>	<b>754,308</b>	<b>516,728</b>	<b>799,366</b>	<b>342,578</b>	<b>(474,910)</b>	<b>1,938,070</b>	<b>600,000</b>	<b>472,532</b>	<b>4,888,154</b>

## **Ahli United Bank B.S.C.**

### **NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017**

#### **1. BACKGROUND, INFORMATION AND BASIS OF PREPARATION**

Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries are collectively referred to as the Group. List of principal subsidiaries in the Group is disclosed in the complete set of audited consolidated financial statements for the years ended 31 December 2019, 2018 and 2017.

The Group is engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c).

The complete set of audited consolidated financial statements of the Group for the years ended 31 December 2018 and 2017 were approved by the shareholders of the Bank on 28 March 2019 and 29 March 2018 respectively.

The complete set of audited consolidated financial statements of the Group for the year ended 31 December 2019 have been authorised for issue by the Board of Directors on 7 February 2020 and are subject to approval from the shareholders in the forthcoming ordinary general assembly scheduled on 19 March 2020.

The summary consolidated financial statements have been prepared for the purpose of inclusion in the Offeree Board Circular dated 16 March 2020 in connection with the voluntary conditional offer made by Kuwait Finance House K.S.C.P. (KFH) to acquire 100% of the issued and paid-up ordinary shares of the Bank by way of a share swap at an exchange ratio of 1 new KFH share for each 2.325581 AUB shares.

#### **Basis of preparation**

The summary consolidated financial statements have been derived from the audited consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017, on which unmodified audit opinions were issued. The accounting policies and disclosure requirements applicable may vary from year-to-year as a result of adoption of new International Financial Reporting Standards (IFRS), amendments and interpretations as issued by the International Accounting Standards Board (IASB). Accordingly, the users of these summary consolidated financial statements should refer to the complete set of audited consolidated financial statements for the years ended 31 December 2019, 2018 and 2017 for a better understanding of the financial information presented.

The numbers for the years ended 31 December 2019, 2018 and 2017 have been derived from the respective audited annual consolidated financial statements of the Group, some of which are not strictly comparable to the comparative figures as reported at 31 December 2019 and 31 December 2018 respectively, due to reclassification and regrouping adjustments to these figures which did not affect the previously reported total assets, total liabilities, equity and net profit for those years.

The consolidated financial statements of the Group have been prepared in accordance with IFRS as issued by IASB and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law. The full set of those audited consolidated financial statements are available in the respective annual reports published by the Bank, which are placed on the Bank's website.



**6.3.1** The complete set of consolidated audited financial statements for the year ended 31 December 2019 is provided in Appendix B of this Circular.

**6.3.2 Statement of Material Changes**

There have been no material changes in the financial position of AUB since 1 January 2020 till the Latest Practicable Date.

There have been no material transactions (not in the ordinary course of business) to be reported since 1 January 2020 (the date after the last published financial statement).

**6.3.3 Significant Accounting Policies**

All the significant accounting policies as contained in the financial statements for the financial year ending 31 December 2019 have been mentioned in Appendix B of this Circular, under the heading "*Notes to the Consolidated Financial Statements*".

**6.3.4 Auditor's Qualification**

The auditors have not made any qualifications in the Auditors Report in respect to the financials of AUB in the past three years.

**6.3.5 Change in Accounting Policy**

There has been no material change in the Accounting Policy during the past three financial years except as mentioned in Appendix B of this Circular, under the heading "*Significant Accounting Policies*".

**6.4 Other Disclosures**

Directors' Service Agreements

All Directors' Service Agreements are for a term commencing from 29 March 2018, or a later date commencing from a Director's date of appointment, to the date of AUB's AGM to be held in March 2021 (unless terminated earlier in accordance with their terms). No service agreement has a notice period of 12 months or more.

No Directors' Service Agreements have been entered into or amended within 6 months before the commencement of the Offer Period.

**7 MANAGEMENT**

A brief description of the management of AUB is furnished below:

• **Mr. Adel A. El-Labban - Group Chief Executive Officer and Managing Director**

Director since 30 July 2000. Member of the Executive Committee. Holds a Masters in Economics (Highest Honors) from the American University, Cairo, 1980, Bachelors in Economics (Highest Honors) from American University, Cairo, 1977.

Group Chief Executive Officer & Managing Director, Ahli United Bank BSC, Bahrain; Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Vice Chairman, Middle East Financial Investment Co, Saudi Arabia; Director, Ahli United Bank (UK) Plc; and Director, Ahli United Bank KSCP, Kuwait. Formerly: First Deputy Chairman, Ahli Bank SAOG, Oman; Deputy Chairman, Ahli United Bank, Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Director, Bahrain Bourse, formerly Bahrain

Stock Exchange; Director, Kuwait & Middle East Financial Investment Co, Kuwait; Director, Bahrain Association of Banks, Bahrain; Chief Executive Officer and Director, United Bank of Kuwait PLC, UK; Managing Director, Commercial International Bank, Egypt SAE; Chairman, Commercial International Investment Company, Egypt; Vice President, Corporate Finance, Morgan Stanley, USA; and Assistant Vice President, Arab Banking Corporation, Bahrain.

(Total years of experience: 41 years)

- **Mr. Sanjeev Baijal - Deputy Group Chief Executive Officer - Finance and Strategic Development**

Chairman Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain; Director, Ahli United Bank K.S.C.P., Kuwait; Second Deputy Chairman, Ahli Bank S.A.O.G., Oman; Previous experience as Group Head of Finance, Ahli United Bank B.S.C., Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Held various positions at Ernst & Young, Bahrain and Price Waterhouse in India; Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA).

(Total years of experience: 36 years)

- **Mr. Keith Gale - Deputy Group Chief Executive Officer - Risk, Legal and Compliance**

Director, Ahli United Bank K.S.C.P. Kuwait; Director, Ahli United Bank S.A.E., Egypt; Director, Ahli United Bank (UK) P.L.C.; Director, Ahli Bank S.A.O.G., Oman; Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Former Head of Credit and Risk at ABC International Bank P.L.C.; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young. Associate Member of the Institute of Chartered Accountants England & Wales (ACA) and holds a BA (Hons) in Accounting and Finance from the University of Lancaster, UK.

(Total years of experience: 39 years)

- **Mr. Suvrat Saigal - Deputy Group Chief Executive Officer – Retail Banking**

Former: Head of Mass Segment and Products, First Abu Dhabi Bank, UAE; Head of Global Retail, National Bank of Abu Dhabi, UAE; Head of Consumer Banking, Barclays, India; Head of Strategy, Marketing & Consumer Experience, Citibank, Australia; Citibanking Head, Asia Pacific, Citibank N.A., Singapore; Cards Head, Citibank N.A., Japan. Held various management positions with Citibank in Singapore, USA, India and Saudi Arabia. Holds a Bachelor of Engineering from Delhi College of Engineering, India.

(Total years of experience: 30 years)

- **Mr. Shafqat Anwar - Deputy Group Chief Executive Officer - Operations and Technology**

Director, Ahli Bank S.A.O.G., Oman; Former Director, Ahli United Finance Company, Egypt; Former Director, Ahli United Bank (Egypt) S.A.E.; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank (Egypt) S.A.E.; Former Group Head of Operations, Ahli United Bank B.S.C., Bahrain; Former Chief Operating Officer, Commercial Bank of Bahrain, Bahrain; Former Chief Operating Officer, Grindlays Bahrain Bank, Bahrain; Former Operations Manager Gulf, ANZ Grindlays Bank, UAE. Held various management positions with ANZ Banking Group in Bangladesh, UK, UAE and Australia. Holds a Master of Business Administration, a Master of Public Administration and a Bachelor of Social Sciences (BSS) with Honours in Public Administration from the University of Dhaka, Bangladesh.

(Total years of experience: 36 years)

- **Mr. David O'Loan - Deputy Group Chief Executive Officer - Treasury and Investments**

Former: Group Treasurer for J. Sainsbury Plc, UK; Deputy Group Treasurer, RBS Group, UK; Senior Vice President, Swiss Re Asset Management, Switzerland; Investment Director, Standard Life Investments, UK; Head of Treasury, BGB (Ireland) plc, Ireland; Manager, Citibank N.A, Ireland. Fellow of the Association of Chartered Certified Accountants, holds a Master of Science degree in Treasury & Investment from Dublin City University and an MBA from University of Edinburgh.

(Total years of experience: 26 years)

- **Mr. Mark Hirst - Deputy Group Chief Executive Officer -Private Banking and Wealth Management**

Former: Chief Executive Officer & Head of Private Banking, Standard Chartered Bank, Switzerland; Chairman of CS UK Ltd & Market Area Head UK/ International - Credit Suisse Group, Switzerland; Executive Board Member & Market Area Head Middle East & Africa - Deutsche Bank, Switzerland; CEO - Deutsche Bank International Ltd, Channel Islands; CEO & Chief Investment Officer – RBC Global Asset Management UK Ltd; Head of Asset Allocation & Senior Portfolio Manager - Manufactures Life International Investment Office, UK. Economist - Confederation of British Industry, UK. Holds a Masters in International Management from McGill University in Canada, Diploma in International Practising Management from INSEAD, Bachelor of Science from University of Swansea and is a Chartered Fellow of the Institute of Directors, member of the CFA Institute and STEP.

(Total years of experience: 37 years)

- **Mr. Robert Jones - Group Head – Audit**

Former Deputy Chief Executive Officer, Finance, Risk, Operations and Technology at Ahli United Bank (UK) P.L.C., Former Head of Audit for AUB Bahrain, Former Audit Manager in the National Commercial Bank (Saudi Arabia). Has qualified the Information Systems Audit

and Control Association (CISA) and the Institute of Chartered Secretaries & Administrators (ACIS) examinations.

(Total years of experience: 41 years)

- **Mrs. Iman Al-Madani - Group Head – Human Resources & Development, CGM**

Former Head of Human Resources, Bank of Kuwait & Middle East (BKME). Former Assistant General Manager Human Resources, Burgan Bank, Kuwait. Prior to that, worked at the Kuwait Institute for Scientific Research, in the fields of Information Technology and Training and Development. Certified Corporate Governance Officer (CCGO) from the London Business School. Certified Psychometric Assessor Thomas International; Certified Neurological Programming Language (NPL). Holds a Bachelor of Science in Mathematics from the University of Denver, USA and an Associate Degree in Computer Science, Lane College, Oregon State, USA.

(Total years of experience: 35 years)

- **Mr. Sami Tamim - Chief Executive Officer – AUBUK**

Director, Arab Bankers Association, UK. Formerly: Deputy CEO – Private Banking and Wealth Management, Ahli United Bank UK; Executive Director, UBS, London; Director, Citibank, UK; Senior Vice President, Coutts Bank, Geneva; Managing Director, Bank of Beirut, UK; Head of Private Banking, SAMBA, UK. Holds a Bachelor Degree in Economics from the American University of Beirut. Chartered FCSI, Chartered Institute for Securities & Investment.

(Total years of experience: 35 years)

- **Ms. Jehad Al-Humaidhi – Acting, Chief Executive Officer – Ahli United Bank, Kuwait**

Ms. Jehad has over 35 years of banking experience mainly in Information Technology and Operations. Ms. Jehad Al-Humaidhi joined the Bank in 1984 and has held several managerial positions related to operations, administration, electronic systems, data processing and system development. Since 2011, she has held the position of General Manger of IT & Operations rising to Senior General Manager in 2016 before she got promoted to Deputy CEO - Banking Support Group in June 2018. She is a Board Member and Vice-Chairman of KNET, Vice-Chairman of Ci Net and former Board Member of Gulf Custody Company. Ms. Jehad holds a Bachelor of Science degree in Mathematics (Major) and Economics (Minor) from Kuwait University.

(Total years of experience: 35 years)

- **Mrs. Hala Sadek – Acting, Chief Executive Officer – Ahli United Bank, Egypt**

Hala has over 30 years of banking experience mainly in the Corporate Banking and Risk Management functions, in addition to her supervisory responsibilities in respect of Finance, Compliance, Legal, Operations, IT, Premises and Administration Departments. She joined

AUBE in December 2006. Prior to joining AUBE, she had worked with Commercial International Bank (CIB) Egypt where she spent around 8 years holding senior roles in Corporate Banking and Risk Management functions. Hala holds a Bachelor's degree in Economics from the faculty of Economics and Political Science, Cairo University.

(Total years of experience: 31 years)

- **Mr. Nouri Aldubaysi - Chief Executive Officer - Commercial Bank of Iraq**

Director, Commercial Bank of Iraq P.S.C., Iraq. Former Deputy General Manager, Al Rasheed Bank, Iraq. Held senior management positions with Rafidain Bank and Al Rasheed Bank, Iraq. Holds a degree in Accounting from International Institute of Accountancy in Lebanon.

(Total years of experience: 56 years)

- **Mr. Ayman El Gammal - Chief Executive Officer –United Bank for Commerce & Investment, Libya**

Former Assistant Managing Director and Head of Investments, National Investment Bank, Egypt, Former Managing Director, Asset Management - Private Equity, NAEEM Holdings, Egypt, Former Managing Director, EFG Hermes Private Equity, Egypt, Former Executive Director, Commercial International Investment Company, Former Assistant General Manager, Commercial International Bank (CIB), Egypt. Former board member in various companies and banks representing employers' investments. Holds a BA in Business from Cairo University, Egypt.

(Total years of experience: 36 years)

- **Mr. CB Ganesh - Chief Executive Officer – Ahli United Bank B.S.C. (DIFC Branch)**

Former Deputy CEO – Banking Group, Ahli Bank SAOG, Oman. Former Alternate CEO & Head of Wholesale Banking, ICICI Bank Ltd, North Asia (Hong Kong). Former Head of Trade Finance, ICICI Bank Ltd, India; Former Regional Head, Corporate Banking (South India), ICICI Bank Ltd. An Alumnus of MIT Sloan, USA and Indian Institute of Management-Calcutta. Holds a Master in Commerce from MK University India and a Master in Bank Management from Alagappa University, India Islamic Finance Qualification (IFQ) from CISI (UK) and CAIIB from the Indian Institute of Bankers in India.

(Total years of experience: 29 years)

- **Mr. Said Hathout - Chief Executive Officer –Al Hilal Life & Al Hilal Takaful**

Former Chief Operating Officer, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Operations and IT Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Regional Operations Director, ACE Life Insurance Company, Former Chief Operations Officer, ACE Life Insurance Company Egypt; Former Life Administration Manager, Arabia Insurance Company S.A.L.; Lebanon. Holds a Master's Degree in Business

Administration and a Bachelor Degree in Business Marketing from the Lebanese American University in Lebanon.

(Total years of experience: 22 years)

## **8 DOCUMENTS AVAILABLE FOR INSPECTION**

AUB Shareholders may obtain copies of this Circular, the Offer Document and the Acceptance and Transfer Form (as per the procedures set out in paragraph 8.2 of Part IV above).

In addition, the following documents will be available for inspection at AUB's headquarters (c/o Corporate Secretary at Building 2495, Road 2832, Al Seef District 428, Manama, Kingdom of Bahrain) and Ahli United Bank K.S.C.P.'s headquarters (c/o Corporate Secretary at East Tower, Joint Banking Complex, Commercial Area No. 9, Darwazat Abdul Razak, Mubarak Al Kabir St., Kuwait) during normal office hours for the period for which the Offer remains open for acceptance:

- a) Memorandum and Articles of Association of AUB, as amended from time to time;
- b) Consolidated audited financial statements of AUB for the financial years 2017, 2018 and 2019;
- c) The Firm Intention from KFH to AUB dated 5 February 2020;
- d) Written consent of the Professional Independent Adviser to share the Professional Independent Adviser's Opinion;
- e) Professional Independent Adviser's Opinion;
- f) Summary presentation of the Professional Independent Adviser; and
- g) The Implementation Agreement.

**APPENDIX B –  
CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 31 DECEMBER 2019**

**AHLI UNITED BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**





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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the accompanying consolidated financial statements of Ahli United Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AHLI UNITED BANK B.S.C. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Key audit matters (continued)*

<b>1. Impairment of carrying value of loans and advances</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 Financial instruments (IFRS 9) is significant and complex. IFRS 9 requires use of the Expected Credit Loss (ECL) model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgment using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significance of judgments applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.</p> <p>As at 31 December 2019, the Group's gross loans and advances amounted to US\$ 21,512 million and the related ECL allowances amounted to US\$ 770 million, comprising US\$ 413 million of ECL against Stage 1 and 2 exposures and US\$ 357 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and note 7 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, amongst others, focused on the following key areas:</p> <ul style="list-style-type: none"> <li>• We assessed: <ul style="list-style-type: none"> <li>◦ the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;</li> <li>◦ Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and</li> <li>◦ the theoretical soundness and tested the mathematical integrity of the models.</li> </ul> </li> <li>• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;</li> <li>• We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on: <ul style="list-style-type: none"> <li>◦ Key modeling assumptions adopted by the Group; and</li> <li>◦ Basis for and data used to determine overlays.</li> </ul> </li> <li>• For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> <li>◦ Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;</li> <li>◦ Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and</li> <li>◦ ECL calculation.</li> </ul> </li> </ul>



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AHLI UNITED BANK B.S.C. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Key audit matters (continued)*

<b>1. Impairment of carrying value of loans and advances (continued)</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
	<ul style="list-style-type: none"> <li>• For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; and</li> <li>• We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS.</li> </ul> <p>We also involved our internal specialists where their specific expertise was required.</p> <p>Refer to the critical accounting estimates and judgments, disclosures of loans and advances and credit risk management in notes 2, 7 and 31 to the consolidated financial statements.</p>
<b>2. Impairment of goodwill</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>Goodwill is allocated to cash generating units ('CGUs') for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group's recognised goodwill of US\$ 432 million as at 31 December 2019, this audit area is considered a key audit risk.</p>	<p>We obtained an understanding of management's processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations, and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management's assumptions, and discussed our results with management.</p> <p>Additionally, we considered whether the Group's disclosures of the application of judgment in estimating CGU cash flows and the sensitivity of the results of those estimates reflect the risks associated with goodwill impairment.</p> <p>Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 13, and allocation of goodwill to CGUs in note 29 to the consolidated financial statements.</p>



## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### *Other information included in the Group's 2019 Annual Report*

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

#### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
AHLI UNITED BANK B.S.C. (continued)**

**Report on Other Legal and Regulatory Requirements**

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Nader Rahimi.

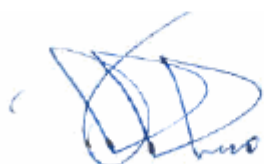
Partner's registration no. 115  
7 February 2020  
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	2019 US\$ '000	2018 US\$ '000
Interest income	3a	1,843,953	1,655,750
Interest expense	3b	892,453	715,226
Net interest income		951,500	940,524
Fees and commissions	4	127,305	128,888
Trading income	5	44,081	39,068
Investment income and others		81,757	61,129
Share of profit from associates	9	30,886	40,941
Fees and other income		284,029	270,026
<b>OPERATING INCOME</b>		<b>1,235,529</b>	<b>1,210,550</b>
Provision for credit losses and others	7g	54,417	86,222
<b>NET OPERATING INCOME</b>		<b>1,181,112</b>	<b>1,124,328</b>
Staff costs		199,077	196,839
Depreciation		34,454	22,269
Other operating expenses		120,218	109,110
<b>OPERATING EXPENSES</b>		<b>353,749</b>	<b>328,218</b>
<b>PROFIT BEFORE TAX</b>		<b>827,363</b>	<b>796,110</b>
Tax expense and zakat	21	38,538	43,745
<b>NET PROFIT FOR THE YEAR</b>		<b>788,825</b>	<b>752,365</b>
Net profit attributable to non-controlling interests		58,324	54,831
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>		<b>730,501</b>	<b>697,534</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:</b>			
Basic and diluted earnings per ordinary share (US cents)	22	7.9	7.6



Meshal AbdulAziz Alothman  
Chairman



Mohammad J. Al-Marzooq  
Deputy Chairman



Adel A. El-Labban  
Group Chief Executive Officer  
& Managing Director

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

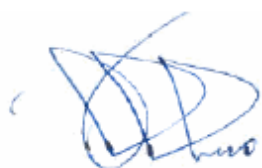
	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Net profit for the year	<u>788,825</u>	<u>752,365</u>
<b>Other comprehensive income (OCI)</b>		
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>		
Net change in fair value of equity investments measured at fair value through OCI	(6,307)	1,237
Net change in pension fund reserve	11,107	5,078
Net change in property revaluation reserve	227	(457)
<b>Items that may be reclassified subsequently to consolidated statement of income</b>		
Foreign currency translation adjustments	39,949	(13,852)
Net change in fair value of debt instruments measured at fair value through OCI	24,537	(20,915)
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	1,126	(18,523)
Net change in fair value of cash flow hedges	(20,116)	9,638
Other comprehensive income / (loss) for the year	<u>50,523</u>	<u>(37,794)</u>
Total comprehensive income for the year	839,348	714,571
Total comprehensive income attributable to non-controlling interests	67,080	52,072
Total comprehensive income attributable to the owners of the Bank	<u>772,268</u>	<u>662,499</u>

The attached notes 1 to 42 form part of these consolidated financial statements



Ahli United Bank B.S.C.  
**CONSOLIDATED BALANCE SHEET**  
 At 31 December 2019

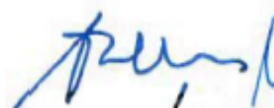
	Note	<u>2019</u>	<u>2018</u>
		<u>US\$ '000</u>	<u>US\$ '000</u>
<b>ASSETS</b>			
Cash and balances with central banks	6a	1,366,978	1,390,470
Treasury bills and deposits with central banks	6b	2,202,340	1,918,727
Deposits with banks		4,683,260	3,061,818
Loans and advances	7	20,742,360	19,503,961
Non-trading investments	8	9,133,881	7,568,528
Investment in associates	9	315,011	318,802
Investment properties	10	229,803	265,794
Interest receivable and other assets	11	823,714	764,094
Premises and equipment	12	295,549	237,064
Goodwill and other intangible assets	13	487,155	478,319
<b>TOTAL ASSETS</b>		<b><u>40,280,051</u></b>	<b><u>35,507,577</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	14	5,023,915	3,752,792
Borrowings under repurchase agreements	15	2,891,532	1,832,134
Customers' deposits	16	25,518,123	23,660,035
Interest payable and other liabilities	17	1,457,090	1,097,911
Subordinated liabilities	18	27,862	192,697
<b>TOTAL LIABILITIES</b>		<b><u>34,918,522</u></b>	<b><u>30,535,569</u></b>
<b>EQUITY</b>			
Ordinary share capital	19b	2,193,611	1,992,541
Treasury shares		-	(13,190)
Reserves		2,071,916	1,929,350
Equity attributable to the owners		4,265,527	3,908,701
Perpetual Tier 1 Capital Securities	19d	600,000	600,000
Non-controlling interests		496,002	463,307
<b>TOTAL EQUITY</b>		<b><u>5,361,529</u></b>	<b><u>4,972,008</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>40,280,051</u></b>	<b><u>35,507,577</u></b>



Meshal AbdulAziz Alothman  
Chairman



Mohammad J. Al-Marzoog  
Deputy Chairman



Adel A. El-Labban  
Group Chief Executive Officer  
& Managing Director

The attached notes 1 to 42 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 US\$ '000	2,018 US\$ '000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		827,363	796,110
Adjustments for:			
Depreciation		34,454	22,269
Investment income		(68,548)	(38,582)
Provision for credit losses and others	7g	54,417	86,222
Fair value of Employee Share Purchase Plan (ESPP) charge	20h	1,851	4,435
Share of profit from associates	9	(30,886)	(40,941)
Operating profit before changes in operating assets and liabilities		818,651	829,513
Changes in:			
Mandatory reserve deposits with central banks		89,587	(160,692)
Treasury bills and deposits with central banks		101,972	1,222,886
Deposits with banks		(1,137,163)	(1,018,384)
Loans and advances		(1,294,825)	(341,445)
Interest receivable and other assets		(74,576)	(137,536)
Deposits from banks		1,271,123	(190,441)
Borrowings under repurchase agreements		1,059,398	559,376
Customers' deposits		1,858,088	1,650,178
Interest payables and other liabilities		21,936	109,909
Net cash generated from operations		2,714,191	2,523,364
Income tax paid		(36,374)	(44,507)
Net cash from operating activities		2,677,817	2,478,857
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(3,292,698)	(3,981,827)
Proceeds from sale or redemption of non-trading investments		2,127,545	2,485,519
Net decrease in investment properties		40,529	7,246
Net increase in premises and equipment		(45,913)	(33,118)
Dividends received from associates		13,603	12,955
Net cash used in investing activities		(1,156,934)	(1,509,225)
<b>FINANCING ACTIVITIES</b>			
Movement in subsidiaries		181	-
Distribution on Perpetual Tier 1 Capital Securities	20j	(38,500)	(38,500)
Repayment of subordinated liabilities		(165,000)	(22,507)
Dividends and other appropriations paid		(390,585)	(333,863)
Dividends paid to non-controlling interests		(31,706)	(26,179)
Issuance of ESPP and Mandatory Purchase Plan (MSP) shares		4,200	17,797
Movement in treasury shares		21,950	(1,529)
Net cash used in financing activities		(599,460)	(404,781)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		921,423	564,851
Net foreign exchange difference		14,536	(4,609)
Cash and cash equivalents at 1 January		3,088,964	2,528,722
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	23	4,024,923	3,088,964
<b>Additional cash flow information:</b>			
Interest received		1,840,294	1,579,594
Interest paid		854,144	631,689

The attached notes 1 to 42 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	<i>Attributable to the owners</i>											<i>Total</i> US\$ '000
	<i>Ordinary share capital</i> US\$ '000	<i>Treasury shares</i> US\$ '000	<i>Share premium</i> US\$ '000	<i>Statutory reserve</i> US\$ '000	<i>Retained earnings</i> US\$ '000	<i>Reserves</i>		<i>Total reserves</i> US\$ '000	<i>Equity attributable to the owners</i> US\$ '000	<i>Perpetual Tier 1 Capital Securities</i> US\$ '000	<i>Non- controlling interests</i> US\$ '000	
						<i>Proposed appro- priations</i> US\$ '000	<i>Other reserves [Note 20(h)]</i> US\$ '000					
Balance at 1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	4,972,008
Distribution on Perpetual Tier 1 Capital Securities [note 20(j)]	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 20(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 20(i)]	-	-	-	-	1,082	(398,838)	-	(397,756)	(397,756)	-	-	(397,756)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(31,706)	(31,706)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-	-
Additional shares issued [note 19 (c)]	1,651	-	2,549	-	-	-	-	2,549	4,200	-	-	4,200
Sale of treasury shares	-	13,190	-	-	-	-	8,760	8,760	21,950	-	-	21,950
Fair value amortisation of share based transactions	-	-	-	-	1,851	-	-	1,851	1,851	-	-	1,851
Transfer from OCI reserve	-	-	-	-	(1,195)	-	-	(1,195)	(1,195)	-	(79)	(1,274)
Movement in associates	-	-	-	-	(7,773)	-	-	(7,773)	(7,773)	-	-	(7,773)
Movement in subsidiaries	-	-	21	-	-	-	-	21	21	-	160	181
Total comprehensive income for the year	-	-	-	-	730,501	-	41,767	772,268	772,268	-	67,080	839,348
Transfer to statutory reserve [note 20(c)]	-	-	-	73,050	(73,050)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 20(i)]	-	-	-	-	(438,722)	438,722	-	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>2,193,611</b>	<b>-</b>	<b>766,230</b>	<b>659,531</b>	<b>611,207</b>	<b>439,722</b>	<b>(404,774)</b>	<b>2,071,916</b>	<b>4,265,527</b>	<b>600,000</b>	<b>496,002</b>	<b>5,361,529</b>

The attached notes 1 to 42 form part of these consolidated financial statements.

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	<i>Attributable to the owners</i>											
	<i>Ordinary share capital US\$ '000</i>	<i>Treasury shares US\$ '000</i>	<i>Share premium US\$ '000</i>	<i>Statutory reserve US\$ '000</i>	<i>Reserves</i>			<i>Total reserves US\$ '000</i>	<i>Equity attributable to the owners US\$ '000</i>	<i>Perpetual Tier 1 Capital Securities US\$ '000</i>	<i>Non- controlling interests US\$ '000</i>	<i>Total US\$ '000</i>
					<i>Retained earnings US\$ '000</i>	<i>Proposed appropriations US\$ '000</i>	<i>Other reserves [Note 20(h)] US\$ '000</i>					
Restated balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	549,823	342,578	(420,266)	1,743,171	3,620,723	600,000	442,100	4,662,823
Distribution on Perpetual Tier 1 Capital Securities [note 20(j)]	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 20(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 20(i)]	-	-	-	-	818	(341,578)	-	(340,760)	(340,760)	-	-	(340,760)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	-	(26,179)	(26,179)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	94,883	-	-	-	(94,883)	-	-	(94,883)	-	-	-	-
Additional shares issued [note 19 (c)]	8,445	-	9,352	-	-	-	-	9,352	17,797	-	-	17,797
Purchase of treasury shares	-	(1,529)	-	-	-	-	-	-	(1,529)	-	-	(1,529)
Fair value amortisation of share based transactions	-	-	-	-	4,435	-	-	4,435	4,435	-	-	4,435
Transfer from OCI reserve	-	-	-	-	(7,633)	-	-	(7,633)	(7,633)	-	(305)	(7,938)
Movement in associates	-	-	-	-	(10,091)	-	-	(10,091)	(10,091)	-	(1,621)	(11,712)
Total comprehensive income for the year	-	-	-	-	697,534	-	(35,035)	662,499	662,499	-	52,072	714,571
Transfer to statutory reserve [note 20(c)]	-	-	-	69,753	(69,753)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 20(i)]	-	-	-	-	(398,838)	398,838	-	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-	-
Balance at 31 December 2018	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	4,972,008

The attached notes 1 to 42 form part of these consolidated financial statements

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

#### 1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 below (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors dated 7 February 2020.

#### 2 ACCOUNTING POLICIES

##### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of freehold land, certain financial instruments [as detailed below in note 2.7(c)] and all derivative financial instruments. In addition, as fully discussed below in note 2.7(h)(i), carrying values of recognised assets that are designated as hedged items in fair value hedges are adjusted to the extent of the fair value attributable to the risk being hedged. The consolidated financial statements are presented in US Dollars, which is also the Bank's functional currency and all values are rounded-off to the nearest thousands except where otherwise indicated.

##### 2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law.

##### 2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2019 and 2018. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Bank is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation. The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities.

The following are the Bank's principal subsidiaries:

Name	Incorporated in	Group's nominal holding	
		2019	2018
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	100.0%	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	67.3%	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Arab Republic of Egypt	85.5%	85.5%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	75.0%	75.0%
Al Ahli Real Estate Company S.P.C. ("AREC")	Kingdom of Bahrain	100.0%	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	100.0%	100.0%

\* Effective holding 74.9% (2018: 74.9%)

**2 ACCOUNTING POLICIES (continued)**

**2.4 New standards and interpretations issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

-Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020.

The current LIBOR linked interest rate benchmarks are expected to cease by the end of year 2021. In order to alleviate uncertainties that this change may have on the accounting of hedging relationships that are based on LIBOR benchmark rates, the IASB issued the Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7, that primarily includes a number of reliefs, which allows reporting entities to continue to account for hedging relationships on the basis of current LIBOR linked interest rate benchmarks.

- Definition of Material (Amendments to IAS 1 and IAS 8) - effective for annual periods beginning on or after 1 January 2020.

- Definition of a Business (Amendments to IFRS 3) - effective for annual periods beginning on or after 1 January 2020.

The Group does not expect any significant impact on the Group's financial position and results, arising from the adoption of above standards and amendments.

**2.5 New standards and interpretations effective for the year**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of IFRS 16, which is explained below.

***IFRS 16 Leases***

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to US\$ 60.6 million, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 2.5% at 1 January 2019. As on 31 December 2019, right-of-lease assets amounted to US\$ 46.2 million and lease cost for the year ended 31 December 2019 relating to right-of-use assets of US\$ 11.0 million is included under "depreciation" line in the consolidated statement of income.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

**2 ACCOUNTING POLICIES (continued)**

**2.5 New standards and interpretations effective for the year (continued)**

***IFRS 16 Leases (continued)***

**a) Right-of-use assets**

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the balance sheet.

**b) Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the balance sheet.

**2.6 Significant accounting judgements and estimates**

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The most significant uses of judgement and estimates are as follows:

***i) Business model***

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

***ii) Measurement of the expected credit loss (ECL) allowances***

The measurement of the ECL for financial assets measured at amortised cost and debt instruments measured at Fair Value Through Other Comprehensive Income (FVTOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

**2 ACCOUNTING POLICIES (continued)**

**2.6 Significant accounting judgements and estimates (continued)**

*ii) Measurement of the expected credit loss (ECL) allowances (continued)*

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as Gross domestic product, oil prices and unemployment levels on the one hand and default and loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weightings of forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

*iii) Pension plans*

Estimates and assumptions are used in determining the Group's pension liabilities. The cost of the defined benefit pension plan and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

*iv) Going concern*

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

*v) Fair value of financial instruments*

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such estimates.

*vi) Impairment of goodwill and intangible assets*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 13.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**2.7 Summary of significant accounting policies**

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except for those detailed in note 2.5, are set out below.



**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(a) Investments in associates**

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist. There are no significant restrictions on the Group's ability to access or use associates assets and settle liabilities.

**(b) Foreign currency translation**

**(i) Transactions and balances**

Transactions in foreign currencies are initially recorded in the relevant functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in "trading income" in the consolidated statement of income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary investments classified as FVTOCI measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and the differences are included in other comprehensive income as part of the fair value adjustment of the respective items, unless these non-monetary investments items are designated as Fair Value Through Profit or Loss (FVTPL) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income.

**(ii) Group companies**

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not US Dollars are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated statement of income.

**(c) Financial instruments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value plus, for an item not recorded at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest rate method and taken to interest income or interest expense as appropriate.

**(i) Date of recognition**

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(c) Financial instruments (continued)**

**(ii) Treasury bills and deposits with central banks**

Treasury bills and deposits with central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective interest rate method.

**(iii) Deposits with banks and other financial institutions and loans and advances**

Deposits with banks and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 31 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses" and in an ECL allowance account in the consolidated balance sheet. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

**(iv) Debt instruments**

Debt instruments are measured at amortised cost using the effective interest rate method if:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument.

The change in fair value is not recognized for assets carried at cost or amortised cost.

Debt instruments are measured at FVTOCI when both the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the solely payments of principal and interest (SPPI) test.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

If either of these two criteria is not met, the financial assets are classified and measured at FVTPL. Additionally, even if the financial asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL based on the business model.

The Group accounts for any changes in the fair value in the consolidated statement of income for assets classified as "FVTPL".

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(c) Financial instruments (continued)**

**(v) Equity investments**

Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment as FVTOCI on initial recognition. At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

**(vi) Other financial instruments**

A financial asset is classified as FVTPL, if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

**(vii) Derivatives (other than hedging instruments)**

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

Derivatives embedded in other financial instruments are not separated from the host contract and the entire contract is considered in order to determine its classification. These financial instruments are classified as FVTPL and the changes in fair value of the entire hybrid contract are recognised in the consolidated statement of income.

**(viii) Deposits and subordinated liabilities**

These financial liabilities are carried at amortised cost, less amounts repaid.

**(d) Derecognition of financial assets and financial liabilities**

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

**(e) Repurchase agreements**

Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "borrowings under repurchase agreements". The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

**(f) Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the balance sheet date.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(f) Determination of fair value (continued)**

The fair value of liabilities with a demand feature is the amount payable on demand.

The fair value of interest-bearing financial assets and financial liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques. Equity securities and funds classified under Level 3 are valued based on discounted cash flows and dividend discount models.

Investments in funds are stated at net asset values provided by the fund managers.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period disclosed in note 37.

**(g) Impairment of financial assets**

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9- Financial Instruments (IFRS 9), for the following categories of financial instruments that are not measured at FVTPL:

- Amortised cost financial assets;
- Debt securities classified as FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts, letters of credit and acceptances.

Impairment allowances for ECL are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for credit losses. Equity investments are not subject to impairment assessments.

***Expected credit loss impairment model***

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Management overlays may be applied to the model outputs if consistent with the objective of a significant increase in the credit risk.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(g) Impairment of financial assets (continued)**

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination as described below:

Stage 1 – Measures and recognizes credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per AUB's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
  
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments where there is objective evidence of impairment are considered to be credit impaired and are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Exposures which are classified as Stage 2 are not moved back to Stage 1 unless a minimum cooling off period of six months has elapsed from the date when the exposure qualifies to be reclassified except for restructured facilities for which a minimum cooling off period of twelve months is applied. Further, no exposure classified in Stage 3 is moved to Stage 2 till a period of twelve months has elapsed from the date on which the account qualifies for reclassification.

***Incorporation of forward looking information***

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of PiT PD. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration include crude oil related variables, gross domestic product, unemployment and real estate indices. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

***Definition of default***

Financial assets that are subject to ECL measurement are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(g) Impairment of financial assets (continued)**

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

**(h) Hedge accounting**

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. These derivatives are stated at fair value. Derivatives with positive market values are included in "interest receivable and other assets" and derivatives with negative market values are included in "interest payable and other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally designates and documents the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, the Group undertakes a formal assessment to ensure the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are regarded as effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges, which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

**(i) Fair value hedges**

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost or at FVTOCI, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

**(ii) Cash flow hedges**

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the consolidated statement of income as "trading income".

The gains or losses on effective cash flow hedges recognised initially in OCI are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(h) Hedge accounting (continued)**

**(ii) Cash flow hedges (continued)**

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in OCI remains in OCI until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the year.

**(i) Offsetting financial instruments**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis.

**(j) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) Interest income and expense**

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. Recognition of interest income is suspended on loans and advances where interest and / or principal is overdue by 90 days or more.

**(ii) Fees and commissions**

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations. Other fees and commission income are recognised when earned.

**(iii) Dividend income**

Dividend income is recognised when the right to receive payment is established.

**(k) Business combinations, goodwill and other intangible assets**

Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill. Changes in parent's ownership interest in a subsidiary that do not result in loss of control are treated as transactions between equity holders and are reported in equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured on initial recognition at their fair values on the date of recognition. Following initial recognition, intangible assets are carried at originally recognised values less any accumulated impairment losses.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(k) Business combinations, goodwill and other intangible assets (continued)**

Impairment of goodwill and intangible assets with indefinite life is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill and intangible assets with indefinite life acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format determined in accordance with IFRS 8 - Operating Segments.

**(l) Premises and equipment**

Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by using unobservable valuation inputs. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve in equity.

Premises and equipment are stated at cost, less accumulated depreciation and impairment, if any.

Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Freehold buildings	40 to 50 years
- Fixtures and improvements	Over the lease period or up to 10 years
- Other premises and equipment	Up to 10 years

**(m) Investment properties**

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties. Investment properties are remeasured at cost less accumulated depreciation (depreciation for buildings based on an estimated useful life of 40 years using the straight-line method) and accumulated impairment. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or when sale is completed.

**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits, together with those deposits with banks and other financial institutions and treasury bills having an original maturity of three months or less.

**(o) Provisions**

Provisions are recognised when the Group has a present obligation arising from a past event and the costs to settle the obligation are both probable and able to be reliably estimated.



**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(p) Employee benefits**

*Defined benefit pension plan*

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any) both excluding interest are recognised immediately in OCI.

*Defined contribution plans*

The Group also operates a defined contribution plan, the costs of which are recognised in "staff costs" in the period to which they relate.

**(q) Taxes**

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

**(r) Fiduciary assets**

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not incorporated in the consolidated balance sheet.

**(s) Non-controlling interests**

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

**(t) Perpetual Tier 1 Capital Securities**

Perpetual Tier 1 Capital Securities of the Group are recognised under equity in the consolidated balance sheet and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

**(u) Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the period that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

**(v) Treasury shares**

Own equity instruments that are acquired are recognised at cost and deducted from equity. Any surplus/deficit arising from the subsequent sale of treasury shares is included in capital reserve under equity.

**(w) Employees' share purchase plan**

The Group operates an employees' share purchase plan for certain eligible employees. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated statement of income with a corresponding effect to equity.

**(x) Financial guarantees and loan commitments**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(x) Financial guarantees and loan commitments (continued)**

Financial guarantees are initially recognised in the consolidated financial statements at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The expected loss allowance on financial guarantees is measured on the basis of expected payment to be made to the holder less any amounts that the Group expects to recover. Any change in a liability relating to guarantees is recognised in the consolidated statement of income.

**(y) Repossessed assets**

Repossessed assets are assets acquired in settlement of debt. These assets are carried at the lower of their repossessed value or their fair value and reported under "other assets" in the consolidated balance sheet.

**(z) Islamic banking**

The Islamic banking activities of the Group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board.

*- Earnings prohibited by Sharia*

The Islamic operation is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account, where the Islamic operation uses these funds for charitable purposes.

*- Commingling of funds*

The funds of Islamic operation are not commingled with the funds of the conventional operations of the Group.

**(aa) Islamic products**

**Murabaha**

An agreement whereby the Group sells to a customer commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the Group (seller) informs the purchaser of the price at which the asset had been purchased and also stipulates the amount of profit to be recognized.

**Ijara**

A lease agreement between the Group (lessor) and the customer (lessee), whereby the Group earns profit by charging rentals on assets leased to customers.

**Tawarruq**

A sales agreement whereby a customer buys commodities from the Group on a deferred payment basis and then immediately resells them for cash to a third party.

**Mudaraba**

An agreement between two parties; one of them provides the funds and is called Rab-UI-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In the case of normal loss, the Rab-UI-Mal would bear the loss of its funds while the Mudarib would bear the loss of its efforts. However, in the case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group acts as Mudarib when accepting funds from depositors and as Rab-UI-Mal when investing such funds on a Mudaraba basis.

**Wakala**

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(aa) Islamic products (continued)**

**Istisna'a**

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

**Revenue recognition**

Revenue is recognised on the above Islamic products as follows:

Income from Murabaha, Tawarruq and Istisna'a are recognised on an effective yield basis which is established on the initial recognition of the asset and is not revised subsequently.

Income from Ijara is recognized over the term of the Ijara agreement so as to yield a constant rate of return on the net investment outstanding.

Income / (loss) on Mudaraba financing is based on expected results adjusted for actual experience as applicable, while similarly the losses are charged to income.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

**(ab) Equity of unrestricted investment account holders' share of profit**

The profit computed after taking into account all income and expenses at the end of a financial year is distributed between equity of unrestricted investment account holders which include Mudaraba depositors and the Group's shareholders. The share of profit of the equity of unrestricted investment account holders is calculated on the basis of their daily deposit balances over the year, after reducing the agreed and declared Mudarib fee.

Equity of unrestricted investment account holders do not bear the expenses relating to non compliance with Shari'a regulations.

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 NET INTEREST INCOME

	<i>2019</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>(a) INTEREST INCOME</b>		
Treasury bills	98,442	110,160
Deposits with banks	122,510	97,821
Loans and advances	1,203,401	1,116,706
Non-trading investments	419,600	331,063
	<b>1,843,953</b>	<b>1,655,750</b>
<b>(b) INTEREST EXPENSE</b>		
Deposits from banks (including borrowings under repurchase agreements)	192,933	88,697
Customers' deposits	693,678	614,395
Subordinated liabilities	5,842	12,134
	<b>892,453</b>	<b>715,226</b>
	<b>951,500</b>	<b>940,524</b>

4 FEES AND COMMISSIONS

	<i>2019</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Fees and commission income		
- Transaction banking services	117,911	112,536
- Management, performance and brokerage fees*	19,951	24,151
Fees and commission expense	(10,557)	(7,799)
	<b>127,305</b>	<b>128,888</b>

\* This includes US\$ 10.5 million (2018: US\$ 9.7 million) of fee income relating to trust and other fiduciary activities.

5 TRADING INCOME

	<i>2019</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Foreign exchange - customer transactions	39,196	30,203
Proprietary trading	4,885	8,865
	<b>44,081</b>	<b>39,068</b>

6 (a) CASH AND BALANCES WITH CENTRAL BANKS

	<i>2019</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Cash and balances with central banks, excluding mandatory reserve deposits (note 23)	970,011	903,916
Mandatory reserve deposits with central banks *	396,967	486,554
	<b>1,366,978</b>	<b>1,390,470</b>

\* Mandatory reserve deposits are not available for use in day-to-day operations.

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6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

	2019	2018
	US\$ '000	US\$ '000
Central Bank of Bahrain	727,542	352,859
Central Bank of Kuwait	1,137,879	1,140,183
Central Bank of Egypt	306,165	294,932
Central Bank of Iraq	30,754	130,753
	<b>2,202,340</b>	<b>1,918,727</b>

The deposits with Central Banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies.

7 LOANS AND ADVANCES

	2019		2018	
	US\$ '000	%	US\$ '000	%
<b>a) By industry sector</b>				
Consumer / personal	2,741,426	12.7	2,732,571	13.5
Residential mortgage	1,710,385	8.0	1,520,131	7.5
Trading and manufacturing	5,717,748	26.5	5,267,616	25.9
Real estate	5,529,821	25.7	5,143,957	25.3
Banks and other financial institutions	1,153,099	5.4	1,171,627	5.8
Services	3,999,375	18.6	3,840,749	18.9
Government / public sector	150,611	0.7	147,872	0.7
Others	509,659	2.4	494,684	2.4
	<b>21,512,124</b>	<b>100.0</b>	<b>20,319,207</b>	<b>100.0</b>
Less: ECL allowances (Stage 1 and 2)	(413,259)		(490,398)	
Less: ECL allowances (Stage 3)	(356,505)		(324,848)	
	<b>20,742,360</b>		<b>19,503,961</b>	
	<b>2019</b>		<b>2018</b>	
	US\$ '000	%	US\$ '000	%
<b>b) By geographic region</b>				
Kingdom of Bahrain	3,821,623	17.8	3,670,637	18.1
State of Kuwait	10,486,465	48.7	9,859,978	48.5
Other GCC countries	2,751,961	12.8	2,873,672	14.1
United Kingdom	1,988,072	9.2	1,772,606	8.7
Arab Republic of Egypt	2,120,162	9.9	1,723,554	8.5
Europe (excluding United Kingdom)	138,774	0.6	174,880	0.9
Asia (excluding GCC countries)	98,150	0.5	92,920	0.5
Others	106,917	0.5	150,960	0.7
	<b>21,512,124</b>	<b>100.0</b>	<b>20,319,207</b>	<b>100.0</b>
Less: ECL allowances (Stage 1 and 2)	(413,259)		(490,398)	
Less: ECL allowances (Stage 3)	(356,505)		(324,848)	
	<b>20,742,360</b>		<b>19,503,961</b>	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7 LOANS AND ADVANCES (continued)

c) Credit quality of loans and advances

	<i>2019</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
High standard grade				
Retail	3,437,377	102,297	-	3,539,674
Corporate	9,348,355	449,367	-	9,797,722
Standard grade				
Retail	156,129	189,020	-	345,149
Corporate	5,397,441	2,017,347	-	7,414,788
Credit impaired				
Retail	-	-	66,665	66,665
Corporate	-	-	348,126	348,126
	<b>18,339,302</b>	<b>2,758,031</b>	<b>414,791</b>	<b>21,512,124</b>
Less: ECL allowances	(100,805)	(312,454)	(356,505)	(769,764)
	<b>18,238,497</b>	<b>2,445,577</b>	<b>58,286</b>	<b>20,742,360</b>
	<i>2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
High standard grade				
Retail	3,324,450	127,873	-	3,452,323
Corporate	8,691,650	324,598	-	9,016,248
Standard grade				
Retail	176,554	135,532	-	312,086
Corporate	4,969,673	2,189,098	-	7,158,771
Credit impaired				
Retail	-	-	71,926	71,926
Corporate	-	-	307,853	307,853
	<b>17,162,327</b>	<b>2,777,101</b>	<b>379,779</b>	<b>20,319,207</b>
Less: ECL allowances	(125,066)	(365,332)	(324,848)	(815,246)
	<b>17,037,261</b>	<b>2,411,769</b>	<b>54,931</b>	<b>19,503,961</b>

Refer note 31 for further details on credit quality of loans and advances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7 LOANS AND ADVANCES (continued)

d) Age analysis of past due but not credit impaired loans and advances

	2019			
	Up to 30 days US\$ '000	31 to 60 days US\$ '000	61 to 89 days US\$ '000	Total US\$ '000
Retail	156,560	42,348	25,796	224,704
Corporate	79,638	27,495	18,518	125,651
	<b>236,198</b>	<b>69,843</b>	<b>44,314</b>	<b>350,355</b>

	2018			
	Up to 30 days US\$ '000	31 to 60 days US\$ '000	61 to 89 days US\$ '000	Total US\$ '000
Retail	86,209	37,036	25,590	148,835
Corporate	108,528	14,558	44,806	167,892
	<b>194,737</b>	<b>51,594</b>	<b>70,396</b>	<b>316,727</b>

The past due loans and advances up to 30 days include those that are only past due by a few days. None of the above past due loans are considered to be credit impaired.

e) Individually credit impaired loans and advances

	2019		
	Retail US\$ '000	Corporate US\$ '000	Total US\$ '000
Gross credit impaired loans and advances	66,665	348,126	414,791
ECL allowances (Stage 3)	(56,798)	(299,707)	(356,505)
	<b>9,867</b>	<b>48,419</b>	<b>58,286</b>
ECL coverage on credit impaired loans and advances	<b>85.2%</b>	<b>86.1%</b>	<b>85.9%</b>
Gross loans and advances	<b>3,951,488</b>	<b>17,560,636</b>	<b>21,512,124</b>
Credit impaired loans and advances ratio	<b>1.7%</b>	<b>2.0%</b>	<b>1.9%</b>

	2018		
	Retail US\$ '000	Corporate US\$ '000	Total US\$ '000
Gross credit impaired loans and advances	71,926	307,853	379,779
ECL allowances (Stage 3)	(61,277)	(263,571)	(324,848)
	<b>10,649</b>	<b>44,282</b>	<b>54,931</b>
ECL coverage on credit impaired loans and advances	<b>85.2%</b>	<b>85.6%</b>	<b>85.5%</b>
Gross loans and advances	<b>3,836,335</b>	<b>16,482,872</b>	<b>20,319,207</b>
Credit impaired loans and advances ratio	<b>1.9%</b>	<b>1.9%</b>	<b>1.9%</b>

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2019 amounts to US\$ 290.8 million (31 December 2018: US\$ 357.9 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US\$ 218.9 million as at 31 December 2019 (31 December 2018: US\$ 243.1 million) with no significant impact on ECL.

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31 December 2019

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances

A reconciliation of the loss allowances for loans and advances by class is as follows:

i) Loss allowances for loans and advances - Retail

	2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
At 1 January 2019	36,613	9,535	61,277	107,425
Transfer from Stage 1	(4,607)	2,450	2,157	-
Transfer from Stage 2	-	(3,502)	3,502	-
Net remeasurement of ECL allowances for the year	(6,092)	(450)	16,769	10,227
Amounts written-off during the year *	-	-	(27,028)	(27,028)
Exchange rate and other adjustments	34	(77)	121	78
<b>At 31 December 2019</b>	<b>25,948</b>	<b>7,956</b>	<b>56,798</b>	<b>90,702</b>
	2018			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
At 1 January 2018 (restated)	39,057	13,576	39,422	92,055
Transfer from Stage 1	(3,719)	1,371	2,348	-
Transfer from Stage 2	-	(5,798)	5,798	-
Net remeasurement of ECL allowances for the year	1,261	551	16,950	18,762
Amounts written-off during the year *	-	-	(2,880)	(2,880)
Exchange rate and other adjustments	14	(165)	(361)	(512)
<b>At 31 December 2018</b>	<b>36,613</b>	<b>9,535</b>	<b>61,277</b>	<b>107,425</b>

ii) Loss allowances for loans and advances - Corporate

	2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
At 1 January 2019	88,453	355,797	263,571	707,821
Transfer from Stage 1	(3,111)	3,067	44	-
Transfer from Stage 2	-	(97,898)	97,898	-
Net remeasurement of ECL allowances for the year	(11,660)	43,578	44,868	76,786
Amounts written-off during the year *	-	-	(114,030)	(114,030)
Exchange rate and other adjustments	1,175	(46)	7,356	8,485
<b>At 31 December 2019</b>	<b>74,857</b>	<b>304,498</b>	<b>299,707</b>	<b>679,062</b>



Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances (continued)

ii) Loss allowances for loans and advances - Corporate (continued)

	2018			Total US\$ '000
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	
At 1 January 2018 (restated)	106,924	365,091	285,257	757,272
Transfer from Stage 1	(81)	-	81	-
Transfer from Stage 2	4,148	(25,793)	21,645	-
Net remeasurement of ECL allowances for the year	(22,475)	17,437	104,941	99,903
Amounts written-off during the year *	-	-	(163,848)	(163,848)
Exchange rate and other adjustments	(63)	(938)	15,495	14,494
At 31 December 2018	88,453	355,797	263,571	707,821

\* Represents the full carrying value of the loans written-off.

g) Provision for credit losses and others

The net charge for provision in the consolidated statement of income is as follows:

	2019 US\$ '000	2018 US\$ '000
Net remeasurement of ECL on loans and advances (note 7f)	87,013	118,665
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	(30,587)	(42,738)
Net remeasurement of ECL for non-trading investments (note 8)	(2,316)	679
Net remeasurement of ECL on off-balance sheet exposures and others	307	9,616
	54,417	86,222



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8 NON-TRADING INVESTMENTS (continued)

The fair value of the non-trading investments held at amortised cost is US\$ 7,876.4 million as at 31 December 2019 (31 December 2018: US\$ 6,182.9 million) of which US\$ 7,862.5 million is classified under Level 1 of fair value hierarchy (31 December 2018: US\$ 6,164.9 million) and US\$ 13.9 million is classified under Level 2 of fair value hierarchy (31 December 2018: US\$ 18.0 million).

Income from FVTPL investments for the year amounted to US\$ 40.8 million (2018: US\$ 22.2 million).

b) Credit quality of non-trading investments

	2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
	8,716,976	199,002	-	8,915,978
Less: ECL allowances	(9,407)	(1,733)	-	(11,140)
Equity instruments at fair value	-	-	-	229,043
	8,707,569	197,269	-	9,133,881
	2018			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
	7,146,732	156,853	-	7,303,585
Less: ECL allowances	(9,729)	(3,722)	-	(13,451)
Equity instruments at fair value	-	-	-	278,394
	7,137,003	153,131	-	7,568,528

Refer note 31 for further details on credit quality of non-trading investments.

c) Movements in ECL allowances

	2019			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
At 1 January 2019	9,729	3,722	-	13,451
Transfer from Stage 1	(84)	84	-	-
Net remeasurement of ECL allowances for the year	(243)	(2,073)	-	(2,316)
Exchange rate and other adjustments	5	-	-	5
At 31 December 2019	9,407	1,733	-	11,140

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8 NON-TRADING INVESTMENTS (continued)

c) Movements in ECL allowances (continued)

	2018			Total US\$ '000
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	
At 1 January 2018 (Restated)	12,847	2,520	450	15,817
Transfer from Stage 1	(829)	829	-	-
Net remeasurement of ECL allowances for the year	756	(77)	-	679
Exchange rate and other adjustments	(3,045)	450	(450)	(3,045)
At 31 December 2018	9,729	3,722	-	13,451

9 INVESTMENT IN ASSOCIATES

The principal associates of the Group are:

Name	Incorporated in	Group's nominal holding	
		2019	2018
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	35.0%	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	40.0%	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	40.0%	40.0%

The summarised financial information of the Group's associates was as follows:

	2019	2018
	US\$ '000	US\$ '000
Total assets	7,222,669	6,712,855
Total liabilities	6,028,896	5,585,550
Net profit for the year (Group's share)	30,886	40,941
Net comprehensive loss for the year (Group's share)	(7,436)	(103)

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#### 9 INVESTMENT IN ASSOCIATES (continued)

Financial information of ABO, being the material associate is provided below. The information is based on amounts as reported in financial statements of ABO.

	<u>2019</u>	<u>2018</u>
	<u>US\$ 'million</u>	<u>US\$ 'million</u>
<b>Ahli Bank S.A.O.G.</b>		
<b>Balance sheet related information</b>		
Loans and advances	5,337.6	4,858.9
Total assets	6,541.6	5,949.1
Customers' deposits	4,446.0	4,316.0
Total liabilities	5,530.7	5,016.7
<b>Income statement related information</b>		
Total operating income	181.2	161.4
Net profit for the year	80.6	74.8
Dividends received during the year	13.6	13.0
<b>Cash flow related information</b>		
Net cash (used in)/generated from operating activities	(237.5)	59.3
Net cash used in investing activities	(110.4)	(3.1)
Net cash from financing activities	165.1	78.5

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2019 is US\$ 185.7 million (31 December 2018: US\$ 198.6 million).

#### 10 INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2019, the fair value of the investment properties is US\$ 281.4 million (31 December 2018: US\$ 320.3 million). Investment properties were valued by independent valuers using unobservable valuation inputs and are classified under Level 3 of the fair value hierarchy.

#### 11 INTEREST RECEIVABLE AND OTHER ASSETS

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Deferred tax asset (note 21)	65	2,365
Interest receivable	240,459	236,800
Derivative assets (note 27)	105,489	117,888
Prepayments and others	477,701	407,041
	<u>823,714</u>	<u>764,094</u>

Prepayments and others include repossessed real estate assets amounting to US\$ 318.3 million (31 December 2018: US\$ 296.2 million).

Interest receivable include US\$ 20.7 million (31 December 2018: US\$ 12.2 million) relating to financial assets classified as FVTOCI and balance relates to assets held at amortised cost.

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12 PREMISES AND EQUIPMENT

The net book values of the Group's premises and equipment are:

	2019	2018
	US\$ '000	US\$ '000
Freehold land	92,747	92,253
Freehold buildings	26,215	27,850
Fixtures and improvements	33,469	36,451
IT equipment and others	67,994	53,321
Capital work-in-progress	28,875	27,189
Right-of-use assets (note 2.5)	46,249	-
	<b>295,549</b>	<b>237,064</b>

Freehold land was revalued by an independent valuer using significant valuation inputs based on unobservable inputs and is classified under Level 3 of the fair value hierarchy.

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	2019			2018		
	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January	429,305	49,014	478,319	431,299	49,531	480,830
Exchange rate adjustments	3,112	5,724	8,836	(1,994)	(517)	(2,511)
At 31 December	<b>432,417</b>	<b>54,738</b>	<b>487,155</b>	<b>429,305</b>	<b>49,014</b>	<b>478,319</b>

**Goodwill:**

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 29.

*Key assumptions used in estimating recoverable amounts of cash-generating units*

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected Gross Domestic Product growth rate in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments. The discount rate used in goodwill impairment testing was 8.1% to 17.8% (2018: 8.8% to 16.9%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

**Intangible assets:**

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2018: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

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14 DEPOSITS FROM BANKS

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Demand and call	186,298	191,296
Time deposits	4,837,617	3,561,496
	<u>5,023,915</u>	<u>3,752,792</u>

15 BORROWINGS UNDER REPURCHASE AGREEMENTS

The Group has collateralized borrowing lines of credit with various financial institutions through repurchase arrangements, under which it can borrow up to US\$ 7.4 billion (31 December 2018: US\$ 6.8 billion). Collateral is provided in the form of investment securities held within the non-trading investments portfolio.

As at 31 December 2019, the borrowings under these agreements were US\$ 2.9 billion (31 December 2018: US\$ 1.8 billion) and the fair value of investment securities that had been provided as collateral was US\$ 3.2 billion (31 December 2018: US\$ 2.0 billion).

16 CUSTOMERS' DEPOSITS

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Current and call accounts	4,686,902	4,473,268
Saving accounts	2,637,336	2,155,917
Time deposits	18,193,885	17,030,850
	<u>25,518,123</u>	<u>23,660,035</u>

17 INTEREST PAYABLE AND OTHER LIABILITIES

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Interest payable	267,493	229,184
Accruals and other payables*	180,092	179,516
Derivative liabilities (note 27)	497,373	187,156
Other credit balances**	438,593	416,174
Tax liabilities (note 21)	49,641	48,607
ECL allowances***	23,898	37,274
	<u>1,457,090</u>	<u>1,097,911</u>

Interest payable includes US\$ 1.7 million (31 December 2018: US\$ 0.9 million) relating to liabilities classified as FVTOCI and balance related to liabilities at amortised cost.

\* Accruals and other payables include US\$ 46.6 million (31 December 2018: Nil ) relating to lease liabilities.

\*\* Other credit balances mainly includes insurance related technical provisions, unearned fees, margin deposits, unclaimed dividends and other sundary creditors.

\*\*\* This represents ECL allowances on financial contracts such as guarantees and undrawn commitments.

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18 SUBORDINATED LIABILITIES

These borrowings are subordinated to the claims of all other creditors of the respective entities.

	<i>Maturity</i>	<u>2019</u>	<u>2018</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>IFC Capitalization (Subordinated Debt) Fund L.P.:</b>			
-	Repayable in four equal semi-annual installments commencing on 15 April 2019 and thereafter up to and including 15 October 2020 *	-	165,000
		<u>-</u>	<u>165,000</u>
<b>Others:</b>			
-	10 year subordinated debt repayable at maturity on 20 January 2020	2020 17,997	17,997
-	Repayable at maturity	5 years and one day notice 9,865	9,700
		<u>27,862</u>	<u>27,697</u>
		<u>27,862</u>	<u>192,697</u>

\* The Bank prepaid the entire residual principal balance of US\$ 123.75 million, together with accrued interest, on 17 June 2019 in accordance with the terms of the agreement.

19 EQUITY

	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(a) <b>Authorised :</b>		
Share capital		
10,000 million shares (2018: 10,000 million shares) of US\$ 0.25 each	2,500,000	2,500,000
Available for issuance of ordinary shares and various classes of preference shares.		
(b) <b>Issued and fully paid:</b>		
	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Ordinary share capital (US\$ 0.25 each)	2,193,611	1,992,541
Number of shares (millions)	8,774.4	7,970.2
Number of treasury shares (millions)	-	21.6
<u>Movement in ordinary shares</u>	<u>2019</u>	<u>2018</u>
	<i>(number in millions)</i>	
Opening balance as at 1 January	7,970.2	7,556.9
Add: issuance of additional shares [note 19 (c)]	6.6	33.8
Add: issuance of bonus shares	797.6	379.5
Closing balance as at 31 December	<u>8,774.4</u>	<u>7,970.2</u>



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19 EQUITY (continued)

(c) Employee Share Purchase Plan and Mandatory Share Plan

The Employee Share Purchase Plan (ESPP) and Mandatory Share Plan (MSP) were setup during 2005 and 2014 respectively after obtaining necessary approvals from regulatory authorities.

ESPP

Movements in ordinary shares under ESPP	<u>2019</u>	<u>2018</u>
	(number in thousands)	
Opening balance	187,851	182,345
Bonus shares issued during the year	16,654	10,245
Awarded during the year	-	26,333
Exercised during the year	(78,490)	(31,072)
Closing balance	<u>126,015</u>	<u>187,851</u>

MSP

Under the MSP scheme, the MSP Trust procures and provide for shares to satisfy options to be issued under the MSP Scheme as part of the annual performance bonus deferred share awards. These shares are entitled to cash dividend and bonus share issues.

Movements in ordinary shares under MSP	<u>2019</u>	<u>2018</u>
	(number in thousands)	
Opening balance	18,805	13,335
Bonus shares issued during the year	1,788	1,015
Awarded during the year	6,605	7,444
Exercised during the year	(16,891)	(2,989)
Closing balance	<u>10,307</u>	<u>18,805</u>

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19 EQUITY (continued)

(d) Perpetual Tier 1 Capital Securities

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Issued by the Bank [19d(i)]	400,000	400,000
Issued by the subsidiary [19d(ii)]	200,000	200,000
	<u>600,000</u>	<u>600,000</u>

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carries an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. These securities are perpetual, subordinated and unsecured. The Capital Certificates are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(ii) During 2016, Ahli United Bank K.S.C.P, a subsidiary of the Bank, issued a US\$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Securities that bears a profit rate of 5.5%, which are eligible to be classified under equity. The Capital Certificates are subordinated, unsecured and will carry a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Periodic Distribution Amounts in respect of the Capital Certificates may be cancelled (in whole or in part) at the sole discretion of the issuer on a non-cumulative basis. The Capital Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. These certificates have no maturity date and are callable (in whole but not in part) at par at the option of the issuer on the first call date and on every distribution payment date thereafter, subject to certain conditions.

20 RESERVES

a) Share premium

The share premium arising on the issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL).

b) Capital reserve

As required by the BCCL, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

c) Statutory reserve

As required by the BCCL and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

d) Property revaluation reserve

The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the BCCL.

e) Foreign exchange translation reserve

It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

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## 20 RESERVES (continued)

## f) Other comprehensive income reserve (OCI Reserve)

This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

## g) Cash flow hedge reserve

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

## h) Movements in other reserves

	Foreign			Cumulative changes			Total other reserves	
	Property	exchange	OCI	Cash flow	ESPP	Pension		
	Capital	translation		OCI		ESPP		fund
reserve	revaluation	reserve	reserve	reserve	reserve	reserve		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	-	32,914	-	-	-	-	32,914
Transfers to consolidated statement of income	-	-	-	1,126	(1,294)	-	-	(168)
Sale of treasury shares	8,760	-	-	-	-	-	-	8,760
Net fair value movements	-	-	-	15,371	(18,822)	-	-	(3,451)
Transfers to retained earnings	-	-	-	1,195	-	(1,851)	-	(656)
Fair value movements and others	-	-	-	-	-	1,851	11,107	12,958
Revaluation of freehold land	-	170	-	-	-	-	-	170
<b>Balance at 31 December 2019</b>	<b>17,240</b>	<b>35,395</b>	<b>(402,456)</b>	<b>21,331</b>	<b>(37,137)</b>	<b>-</b>	<b>(39,147)</b>	<b>(404,774)</b>

	Foreign			Cumulative changes			Total other reserves	
	Property	exchange	OCI	Cash flow	ESPP	Pension		
	Capital	translation		OCI		ESPP		fund
reserve	revaluation	reserve	reserve	reserve	reserve	reserve		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Restated balance at 1 January 2018	8,480	35,568	(423,986)	41,663	(26,659)	-	(55,332)	(420,266)
Currency translation adjustments	-	-	(11,384)	-	-	-	-	(11,384)
Transfers to consolidated statement of income	-	-	-	(18,523)	893	-	-	(17,630)
Net fair value movements	-	-	-	(27,134)	8,745	-	-	(18,389)
Transfers to retained earnings	-	-	-	7,633	-	(4,435)	-	3,198
Fair value movements and others	-	-	-	-	-	4,435	5,078	9,513
Revaluation of freehold land	-	(343)	-	-	-	-	-	(343)
<b>Balance at 31 December 2018</b>	<b>8,480</b>	<b>35,225</b>	<b>(435,370)</b>	<b>3,639</b>	<b>(17,021)</b>	<b>-</b>	<b>(50,254)</b>	<b>(455,301)</b>

Foreign currency translation risk primarily arises from Group's investments in diverse countries. Assets and liabilities of these subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting periods. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income prorated between non-controlling interests and equity owners.

The Group undertakes hedging of such net investment in foreign operations to mitigate any currency risk in a number of ways including borrowing in the underlying currency, structural hedging in the form of holding US Dollar long position to the extent possible and forward contracts.

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20 RESERVES (continued)

i) Dividends proposed and paid

	<u>2019</u>	<u>2018</u>
	<u>US\$'000</u>	<u>US\$'000</u>
<b>Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting</b>		
Total cash dividend proposed on the ordinary shares	438,722	398,838
Cash dividend on each ordinary share (US cents per share)	5.0	5.0
Bonus share issue	10%	10%

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	<u>2019</u>	<u>2018</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Distribution @ 6.875 percent per annum on the Perpetual Tier 1 Capital Securities	27,500	27,500
Distribution @ 5.5 percent per annum on the Perpetual Tier 1 Sukuk	11,000	11,000
	<u>38,500</u>	<u>38,500</u>

21 TAXATION

	<u>2019</u>	<u>2018</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Consolidated balance sheet (note 11 and note 17):		
- Deferred tax asset	65	2,365
- Current tax liability	(29,446)	(27,217)
- Deferred tax liability	(20,195)	(21,390)
	<u>(49,641)</u>	<u>(48,607)</u>
Consolidated statement of income		
- Current tax expense on foreign operations	41,974	42,678
- Deferred tax expense on foreign operations	(3,436)	1,067
	<u>38,538</u>	<u>43,745</u>

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBUK and AUBE. Effective tax rate at AUBE is 22.5% (2018: 22.5%) and AUBUK is 19.0% (2018: 19.0%).

The Group also incurred zakat amounting to US\$ 1,899 thousand (2018: US\$ 1,774 thousand) which is included in the consolidated statement of income under 'tax expense and zakat'.

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22 EARNINGS PER SHARE

Basic and diluted earnings per ordinary share are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less distribution on Perpetual Tier 1 Capital Securities, by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic and diluted earnings per ordinary share computations :

	<i>2019</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Net profit for basic and diluted earnings per ordinary share computation</b>		
Net profit attributable to Bank's equity shareholders	730,501	697,534
(Less): Share of Perpetual Tier 1 Capital Securities distribution	(35,740)	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	<u>694,761</u>	<u>661,794</u>
Basic and diluted earnings per ordinary share (US cents)	<u>7.9</u>	<u>7.6</u>
	<i>Number of shares</i>	
	<i>(in millions)</i>	
	<i>2019</i>	<i>2018</i>
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	<u>8,774</u>	<u>8,744</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>8,774</u>	<u>8,744</u>

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	970,011	903,916
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	3,054,912	2,185,048
	<u>4,024,923</u>	<u>3,088,964</u>

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24 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL allowances. Share of profit from associates and investment in associates are shown separately under the consolidated statement of income and consolidated balance sheet respectively.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	<b>2019</b>					
	<b>US\$ '000</b>					
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management</i>		<i>Total</i>
<i>Directors<sup>2</sup></i>				<i>Others</i>		
Interest income	-	3,039	7,852	152	41	11,084
Interest expense	177,294	1,390	125	64	27	178,900
Fees and commissions	-	2,864	2,631	12	1	5,508
Deposits with banks	-	13,432	-	-	-	13,432
Loans and advances	-	-	184,307	3,111	581	187,999
Deposits from banks	-	93,363	-	-	-	93,363
Customers' deposits <sup>1</sup>	6,769,750	-	21,934	7,196	1,815	6,800,695
Subordinated liabilities	9,866	-	-	-	-	9,866
Derivatives liabilities	-	-	-	-	-	-
Commitments and contingent liabilities	-	29,936	153,666	-	-	183,602
Short term employee benefits	-	-	-	12,678	1,916	14,594
End of service benefits	-	-	-	1,865	127	1,992
Directors' fees and related expenses <sup>3</sup>	-	-	2,235	-	-	2,235
	<b>2018</b>					
	<b>US\$ '000</b>					
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management</i>		<i>Total</i>
				<i>Directors<sup>2</sup></i>	<i>Others</i>	
Interest income	-	7,022	7,841	286	37	15,186
Interest expense	145,933	431	1,982	117	13	148,476
Fees and commissions	-	3,032	160	16	6	3,214
Deposits with banks	-	120,148	-	-	-	120,148
Loans and advances	-	25,865	172,261	7,705	1,024	206,855
Deposits from banks	-	137,818	-	-	-	137,818
Customers' deposits <sup>1</sup>	7,057,754	-	96,846	5,297	1,111	7,161,008
Subordinated liabilities	9,700	-	-	-	-	9,700
Derivatives liabilities	-	800	-	-	-	800
Commitments and contingent liabilities	-	96,290	161,172	-	-	257,462
Short term employee benefits	-	-	-	13,321	2,642	15,963
End of service benefits	-	-	-	1,823	149	1,972
Directors' fees and related expenses <sup>3</sup>	-	-	2,314	-	-	2,314

**24 RELATED PARTY TRANSACTIONS (continued)**

<sup>1</sup>Customers' deposits include deposits from GCC government-owned institutions amounting to US\$ 6,723 million (31 December 2018: US\$ 6,978 million).

<sup>2</sup>AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings as per their contractual arrangements. Accordingly, the short term employee benefits and end of service benefits shown above reflect employment remuneration only.

<sup>3</sup>Directors fees and related expenses for 2018 were approved by the shareholders in the annual general meeting on 28 March 2019 and the same for 2019 will be presented for shareholders' approval at the forthcoming annual general meeting in March 2020.

The consolidated income statement includes a fair value amortisation charge of US\$ 0.44 million (2018: US\$ 1.7 million) relating to share based transactions.

**25 EMPLOYEE BENEFITS**

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

**Defined benefit plans**

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US\$ 8,914 thousand (2018: US\$ 13,581 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the amended IAS-19 Employee Benefits, the Group immediately recognizes the actuarial gains and losses relating to 'Defined Pension Benefit' scheme through consolidated statement of changes in equity.

**Defined contribution plans**

The Group contributed US\$ 8,780 thousand (2018: US\$ 7,994 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

**26 MANAGED FUNDS**

Funds administered on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2019 was US\$ 2,568.7 million (2018: US\$ 3,616.9 million).

**27 DERIVATIVES**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The table below shows the net fair values of derivative financial instruments held for trading.

	2019		2018	
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held for trading:</i>				
- Interest rate swaps	54,217	49,273	28,499	23,436
- Forward foreign exchange contracts	15,892	42,127	31,528	19,088
- Options	1,036	1,036	1,108	1,042
- Interest rate futures	-	-	-	260
	<b>71,145</b>	<b>92,436</b>	<b>61,135</b>	<b>43,826</b>

The table below shows the net fair values of derivative financial instruments held for hedging.

	2019			2018		
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held as fair value hedges:</i>						
- Interest rate swaps on amortised cost instruments	31,395	354,497	7,841,580	42,668	120,269	8,140,868
- Interest rate swaps on FVTOCI instruments	2,471	10,520	628,082	11,845	1,608	635,218
<i>Derivatives held as cash flow hedges:</i>						
- Interest rate swaps	197	39,920	217,937	847	21,453	204,328
- Forward foreign exchange contracts	281	-	14,665	1,393	-	29,126
	<b>34,344</b>	<b>404,937</b>	<b>8,702,264</b>	<b>56,753</b>	<b>143,330</b>	<b>9,009,540</b>

Counterparties with whom the Group has entered into forward foreign exchange contracts have placed margin monies covering the fair values of contracts outstanding.



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#### 27 DERIVATIVES (continued)

In respect of derivative assets above, the Group has US\$ 48.0 million (2018: US\$ 73.0 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

##### Fair value hedges

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2019 is negative US\$ 331.3 million (2018: Negative US\$ 67.4 million) which is offset by gain recognised on the hedged item at 31 December 2019, attributable to the hedged risk is US\$ 331.3 million (2018: US\$ 67.4 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2019

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US\$ 228.8 million (31 December 2018: US\$ 128.0 million), non-trading investments amounting to US\$ 7,067.0 million (31 December 2018: US\$ 5,216.0 million) and customer deposits amounting to US\$ 1,764.6 million (31 December 2018: US\$ 3,258.8 million). The net fair value amounting to US\$ 331.3 million is included in the carrying amount of the hedged items.

##### Cash flow hedges

The time periods in which the hedged cash flows are expected to occur and their impact on the consolidated statement of income is as follows:

	<i>3 months or less</i>	<i>More than 3 months up to 1 year</i>	<i>More than 1 year up to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 31 December 2019</b>					
Net cash flows	600	(2,860)	(12,439)	(22,438)	(37,137)
<b>At 31 December 2018</b>					
Net cash flows	861	(151)	(7,689)	(10,042)	(17,021)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2019 and 2018.

##### Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

##### Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

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**28 COMMITMENTS AND CONTINGENT LIABILITIES****Credit-related commitments**

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits available and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Contingent liabilities:		
Guarantees	2,671,283	2,600,252
Acceptances	177,977	126,455
Letters of credit	381,452	576,710
	<u>3,230,712</u>	<u>3,303,417</u>
Maturity of contingent liabilities is as follows:		
Less than one year	2,330,480	2,414,825
Over one year	900,232	888,592
	<u>3,230,712</u>	<u>3,303,417</u>
Irrevocable commitments:		
Undrawn loan commitments	<u>575,702</u>	<u>661,599</u>

Also, refer to note 34 for additional liquidity disclosures.

**29 SEGMENT INFORMATION**

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers.
Treasury and investments	Principally providing money market, trading and treasury services, as well as management of the Group's investments and funding.
Private banking	Principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

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29 SEGMENT INFORMATION (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Year ended 31 December 2019:</b>					
Net interest income	210,748	404,835	263,409	72,508	951,500
Fees and commissions	38,983	66,145	3,650	18,527	127,305
Investment income and trading income	3,407	19,470	133,705	142	156,724
<b>OPERATING INCOME</b>	<b>253,138</b>	<b>490,450</b>	<b>400,764</b>	<b>91,177</b>	<b>1,235,529</b>
Provision for credit losses and others	6,811	49,146	(2,316)	776	54,417
<b>NET OPERATING INCOME</b>	<b>246,327</b>	<b>441,304</b>	<b>403,080</b>	<b>90,401</b>	<b>1,181,112</b>
Operating expenses	128,045	91,076	101,058	33,570	353,749
<b>PROFIT BEFORE TAX</b>	<b>118,282</b>	<b>350,228</b>	<b>302,022</b>	<b>56,831</b>	<b>827,363</b>
Tax expense and zakat					38,538
<b>NET PROFIT FOR THE YEAR</b>					<b>788,825</b>
Less: Attributable to non-controlling interests					58,324
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK</b>					<b>730,501</b>
Inter segment interest included in net interest income above	281,891	(406,227)	73,884	50,452	-
Segment assets	3,325,396	16,347,868	16,665,760	2,019,598	38,358,622
Goodwill	155,185	100,422	97,285	79,525	432,417
Other intangible assets	14,854	19,652	17,917	2,315	54,738
Investment in associates					315,011
Unallocated assets					1,119,263
<b>TOTAL ASSETS</b>					<b>40,280,051</b>
Segment liabilities	6,016,102	5,938,250	17,908,738	3,598,342	33,461,432
Unallocated liabilities					1,457,090
<b>TOTAL LIABILITIES</b>					<b>34,918,522</b>

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29 SEGMENT INFORMATION (continued)

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2018:					
Net interest income	193,711	455,790	217,697	73,326	940,524
Fees and commissions	31,204	70,639	3,690	23,355	128,888
Investment income and trading income	4,143	18,461	118,416	118	141,138
<b>OPERATING INCOME</b>	<b>229,058</b>	<b>544,890</b>	<b>339,803</b>	<b>96,799</b>	<b>1,210,550</b>
Provision for credit losses and others	11,250	76,237	679	(1,944)	86,222
<b>NET OPERATING INCOME</b>	<b>217,808</b>	<b>468,653</b>	<b>339,124</b>	<b>98,743</b>	<b>1,124,328</b>
Operating expenses	118,918	82,236	92,158	34,906	328,218
<b>PROFIT BEFORE TAX</b>	<b>98,890</b>	<b>386,417</b>	<b>246,966</b>	<b>63,837</b>	<b>796,110</b>
Tax expense and zakat					43,745
<b>NET PROFIT FOR THE YEAR</b>					<b>752,365</b>
Less: Attributable to non-controlling interests					54,831
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK</b>					<b>697,534</b>
Inter segment interest included in net interest income above	238,320	(308,152)	32,754	37,078	-
Segment assets	3,240,493	15,523,225	13,149,951	1,795,629	33,709,298
Goodwill	154,278	99,333	96,401	79,293	429,305
Other intangible assets	13,301	17,597	16,044	2,072	49,014
Investment in associates					318,802
Unallocated assets					1,001,158
<b>TOTAL ASSETS</b>					<b>35,507,577</b>
Segment liabilities	5,619,254	4,956,004	15,655,138	3,207,262	29,437,658
Unallocated liabilities					1,097,911
<b>TOTAL LIABILITIES</b>					<b>30,535,569</b>

Geographic segmentation

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the GCC are grouped as "GCC Countries", while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Others". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segment:

**29 SEGMENT INFORMATION (continued)****Geographic segmentation (continued)**

	<i>Operating income</i>		<i>Total assets</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
GCC Countries	809,605	818,312	26,768,450	24,187,029
Others	425,924	392,238	13,511,601	11,320,548
<b>Total</b>	<b>1,235,529</b>	<b>1,210,550</b>	<b>40,280,051</b>	<b>35,507,577</b>

Net profit from Bahrain onshore operations included above is US\$ 102.3 million (2018: US\$ 96.4 million), which represents 14.0% (2018: 13.8%) of the Group's net profit attributable to the owners of the Bank.

**30 RISK MANAGEMENT**

The Board of Directors (BOD) seek to optimise the Group's performance by enabling the various business units to realize the Group's business strategy and meet agreed business performance targets by operating within the BOD approved Group Risk Framework covering risk parameters.

The Group Risk Committee, Group Investment Committee, Group Assets & Liability Committee and Group Operational Risk Committee are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (including the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) operational risk, and (v) legal risk as detailed in notes 31 to 36.

**31 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to mitigate credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

**a) Concentration risk**

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to a particular sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – cash, mortgages over residential properties and assignments over salary income;
- In the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

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**31 CREDIT RISK (continued)****a) Concentration risk (continued)**

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 7(a) and 7(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 32.

**b) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	<i>Gross maximum exposure 2019</i>	<i>Gross maximum exposure 2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with central banks	1,221,112	1,264,079
Treasury bills and deposits with central banks	2,202,340	1,918,727
Deposits with banks	4,683,260	3,061,818
Loans and advances	20,742,360	19,503,961
Non-trading investments	8,904,838	7,290,134
Interest receivable and other assets	452,863	416,716
<b>Total</b>	<b>38,206,773</b>	<b>33,455,435</b>
Contingent liabilities	3,230,712	3,303,417
Undrawn loan commitments	575,702	661,599
<b>Total credit related commitments</b>	<b>3,806,414</b>	<b>3,965,016</b>
<b>Total credit risk exposure</b>	<b>42,013,187</b>	<b>37,420,451</b>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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31 CREDIT RISK (continued)

c) Credit quality of financial assets

The tables below shows distribution of financial assets:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>At 31 December 2019</b>				
Balances with central banks:				
High standard grade	1,221,112	-	-	1,221,112
Treasury bills and deposits with central banks:				
High standard grade	1,871,600	-	-	1,871,600
Standard grade	331,015	-	-	331,015
Deposits with banks:				
High standard grade	4,027,398	-	-	4,027,398
Standard grade	642,663	13,544	-	656,207
Loans and advances:				
High standard grade	12,785,732	551,664	-	13,337,396
Standard grade	5,553,570	2,206,367	-	7,759,937
Credit impaired	-	-	414,791	414,791
Non-trading investments:				
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
Credit related contingent items:				
High standard grade	5,466,541	140,879	-	5,607,420
Standard grade	2,177,005	326,516	-	2,503,521
Credit impaired*	-	-	62,511	62,511
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>At 31 December 2018</b>				
Balances with central banks:				-
High standard grade	1,264,079	-	-	1,264,079
Treasury bills and deposits with central banks:				
High standard grade	1,493,056	-	-	1,493,056
Standard grade	425,685	-	-	425,685
Deposits with banks:				-
High standard grade	2,841,393	-	-	2,841,393
Standard grade	220,834	-	-	220,834
Loans and advances:				
High standard grade	12,016,100	452,471	-	12,468,571
Standard grade	5,146,227	2,324,630	-	7,470,857
Credit impaired	-	-	379,779	379,779
Non-trading investments:				
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
Credit related contingent items:				
High standard grade	5,035,017	299,690	-	5,334,707
Standard grade	2,270,127	349,043	-	2,619,170
Credit impaired*	-	-	22,162	22,162

\* After application of credit conversion factors, credit impaired contingent items amounted to US\$ 29,475 thousand (31 December 2018: US\$ 10,985 thousand).

31 CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades which are either internally applied or external ratings mapped to internal ratings.

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk. Refer to note 2.7(g) for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2019 and 2018 other than those disclosed under note 7(d).



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32 CONCENTRATION ANALYSIS

The distribution of assets, liabilities and contingent liabilities on behalf of customers by geographic region and industry sector was as follows:

	2019			2018		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities on behalf of customers</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Geographic region:</b>						
Kingdom of Bahrain	6,567,334	4,990,295	924,615	5,687,619	4,455,381	980,490
State of Kuwait	13,567,056	18,397,588	1,450,019	12,395,107	17,063,555	1,405,590
Other GCC countries	6,634,060	2,212,339	205,159	6,104,303	1,906,559	253,013
United Kingdom (UK)	3,617,402	1,422,431	32,164	2,794,035	670,606	23,148
Arab Republic of Egypt	3,250,254	2,845,449	325,172	2,963,893	2,811,173	288,294
Europe (excluding UK)	1,626,146	2,179,813	218,583	1,533,970	1,314,962	169,715
Asia (excluding GCC)	1,823,995	1,806,067	61,257	1,504,002	1,214,455	77,826
United States of America	1,733,719	69,963	11,601	1,305,430	210,248	11,741
Rest of the World	1,460,085	994,577	2,142	1,219,218	888,630	93,600
	<b>40,280,051</b>	<b>34,918,522</b>	<b>3,230,712</b>	<b>35,507,577</b>	<b>30,535,569</b>	<b>3,303,417</b>
<b>Industry sector:</b>						
Banks and other financial institutions	13,080,144	17,651,767	336,813	11,005,405	14,859,838	548,861
Consumer/personal	2,657,801	6,979,360	4,314	2,598,253	6,076,419	14,085
Residential mortgage	1,705,991	-	1,237	1,512,113	-	1,221
Trading and manufacturing	7,148,141	1,878,701	1,343,770	6,306,265	1,493,065	1,183,462
Real estate	5,641,453	679,286	1,176	5,287,672	432,372	31,469
Services	4,695,139	3,107,946	1,475,967	3,820,876	2,762,727	1,199,376
Government/public sector	4,846,079	3,921,239	39,490	4,476,785	4,106,517	117,658
Others	505,303	700,223	27,945	500,208	804,631	207,285
	<b>40,280,051</b>	<b>34,918,522</b>	<b>3,230,712</b>	<b>35,507,577</b>	<b>30,535,569</b>	<b>3,303,417</b>

33 MARKET RISK

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 33 MARKET RISK (continued)

## a. Market risk-trading

The Group calculates historical simulation VaR using a one day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
31 December 2019	331	(21)	0	310
31 December 2018	153	51	0	204

## b. Market risk-non-trading

## i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2019 and 2018 including the effect of hedging instruments.

*Sensitivity analysis - interest rate risk*

	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 25 bps - increase (+) / decrease (-)	+/- 11,302	10,649

## ii) Currency risk

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board of directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored periodically and hedging strategies used to ensure positions are maintained within established limits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

## 33 MARKET RISK (continued)

## b. Market risk-non-trading (continued)

## ii) Currency risk (continued)

The Group had the following significant net exposures arising out of banking operations as of the consolidated balance sheet date:

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Great Britain Pound	(10,487)	(6,623)
Euro	(8,647)	(3,664)
Egyptian Pound	128,294	(8,162)
Iraqi Dinar	(139,796)	(79,627)
Kuwaiti Dinar	(25,850)	(132,288)

*Sensitivity analysis - currency risk*

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 33 (a).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 20(h).

## iii) Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board of Directors has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Risk Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity valuations (as a result of a change in the fair value of equity investments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity indices</i> %	<i>Effect on income statement</i>	
		<u>2019</u>	<u>2018</u>
<i>Market indices</i>		<u>US\$ '000</u>	<u>US\$ '000</u>
Saudi Stock Exchange (Tadawul)	+/- 10%	13,589	19,151

34 LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Deputy Group Chief Executive Officer Treasury and Investments supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

The Group subsidiaries and affiliates maintain a strong individual liquidity position and manage their liquidity profiles so that cash flows are balanced and funding obligations can be met when due.

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

The maturity profile of the assets and liabilities at 31 December 2019 and 2018 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

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34 LIQUIDITY RISK (continued)

	<i>US\$ '000</i>				<i>Total</i>
	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above 1 year</i>	<i>Undated</i>	
<b>31 December 2019</b>					
<i>Assets</i>					
Cash and balances with central banks	1,366,978	-	-	-	1,366,978
Treasury bills and deposits with central banks	1,414,922	787,418	-	-	2,202,340
Deposits with banks	4,064,195	619,065	-	-	4,683,260
Loans and advances	8,305,095	3,313,962	9,123,303	-	20,742,360
Non-trading investments	4,932,780	2,823,913	1,377,188	-	9,133,881
Investment in associates	-	-	-	315,011	315,011
Investment properties	-	-	-	229,803	229,803
Interest receivable and other assets	281,698	432,358	109,658	-	823,714
Premises and equipment	2,891	8,672	34,687	249,299	295,549
Goodwill and other intangible assets	-	-	-	487,155	487,155
<b>Total</b>	<b>20,368,559</b>	<b>7,985,388</b>	<b>10,644,836</b>	<b>1,281,268</b>	<b>40,280,051</b>
<i>Liabilities</i>					
Deposits from banks	3,551,657	549,433	922,825	-	5,023,915
Borrowings under repurchase agreements	319,993	1,690,464	881,075	-	2,891,532
Customers' deposits	8,790,513	4,981,680	11,745,930	-	25,518,123
Interest payable and other liabilities	465,668	342,421	649,001	-	1,457,090
Subordinated liabilities	17,997	-	9,865	-	27,862
<b>Total</b>	<b>13,145,828</b>	<b>7,563,998</b>	<b>14,208,696</b>	<b>-</b>	<b>34,918,522</b>
<b>Net liquidity gap</b>	<b>7,222,731</b>	<b>421,390</b>	<b>(3,563,860)</b>	<b>1,281,268</b>	<b>5,361,529</b>

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

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34 LIQUIDITY RISK (continued)

	<i>US\$' 000</i>				<i>Total</i>
	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above 1 year</i>	<i>Undated</i>	
31 December 2018					
<i>Assets</i>					
Cash and balances with central banks	1,390,470	-	-	-	1,390,470
Treasury bills and deposits with central banks	879,547	1,039,180	-	-	1,918,727
Deposits with banks	2,992,648	61,009	8,161	-	3,061,818
Loans and advances	7,452,751	2,970,511	9,080,699	-	19,503,961
Non-trading investments	4,908,736	2,358,858	300,934	-	7,568,528
Investment in associates	-	-	-	318,802	318,802
Investment properties	-	-	-	265,794	265,794
Interest receivable and other assets	255,681	396,377	112,036	-	764,094
Premises and equipment	-	-	-	237,064	237,064
Goodwill and other intangible assets	-	-	-	478,319	478,319
<b>Total</b>	<b>17,879,833</b>	<b>6,825,935</b>	<b>9,501,830</b>	<b>1,299,979</b>	<b>35,507,577</b>
<i>Liabilities</i>					
Deposits from banks	3,515,088	206,384	31,320	-	3,752,792
Borrowings under repurchase agreements	482,946	1,349,188	-	-	1,832,134
Customers' deposits	8,649,369	4,601,426	10,409,240	-	23,660,035
Interest payable and other liabilities	422,825	368,479	306,607	-	1,097,911
Subordinated liabilities	-	82,500	110,197	-	192,697
<b>Total</b>	<b>13,070,228</b>	<b>6,607,977</b>	<b>10,857,364</b>	<b>-</b>	<b>30,535,569</b>
<b>Net liquidity gap</b>	<b>4,809,605</b>	<b>217,958</b>	<b>(1,355,534)</b>	<b>1,299,979</b>	<b>4,972,008</b>

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

34 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

	US\$' 000					Total
	Up to One month	One month to three months	Over three months to one year	Over one year to five years	Over five years	
<i>As at 31 December 2019</i>						
Deposits from banks	1,958,371	1,604,009	558,015	980,480	-	5,100,875
Borrowings under repurchase agreements	55,644	265,521	1,715,887	934,076	-	2,971,128
Customers' deposits	11,759,074	3,532,386	7,629,519	2,952,935	23,589	25,897,503
Subordinated liabilities	18,072	-	-	-	12,327	30,399
<b>Total</b>	<b>13,791,161</b>	<b>5,401,916</b>	<b>9,903,421</b>	<b>4,867,491</b>	<b>35,916</b>	<b>33,999,905</b>
Credit related commitments	3,955	69,295	189,823	231,462	81,167	575,702
Derivatives (net)	(17,796)	(8,041)	7,368	(25,102)	(348,313)	(391,884)

	US\$' 000					Total
	Up to One month	One month to three months	Over three months to one year	Over one year to five years	Over five years	
<i>As at 31 December 2018</i>						
Deposits from banks	2,641,602	880,805	208,963	32,885	-	3,764,255
Borrowings under repurchase agreements	97,498	387,198	1,369,577	-	-	1,854,273
Customers' deposits	11,879,446	4,123,617	6,091,506	1,820,825	13,057	23,928,451
Subordinated liabilities	-	-	85,318	114,228	12,351	211,897
<b>Total</b>	<b>14,618,546</b>	<b>5,391,620</b>	<b>7,755,364</b>	<b>1,967,938</b>	<b>25,408</b>	<b>29,758,876</b>
Credit related commitments	11,932	40,114	75,844	459,660	74,049	661,599
Derivatives (net)	(1,861)	3,372	11,083	9,979	(91,647)	(69,074)

35 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

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**36 LEGAL RISK**

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions.

**37 FAIR VALUE MEASUREMENT**

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<i>2019</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments at fair value	113,760	75,830	39,453	229,043
Debt instruments (FVTOCI)	1,124,761	68,747	-	1,193,508
Derivative assets	-	105,489	-	105,489
Derivative liabilities	-	497,950	-	497,950
	<i>2018</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments at fair value	168,403	70,912	39,079	278,394
Debt instruments (FVTOCI)	938,394	12,950	-	951,344
Derivative assets	-	117,888	-	117,888
Derivative liabilities	260	186,896	-	187,156

During the years ended 31 December 2019 and 2018 there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.



**38 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)**

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.4% as of 31 December 2019 (31 December 2018: 16.9%).

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2019 is 117.0%.

**39 DEPOSIT PROTECTION SCHEME**

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB and the Financial Services Compensation Scheme, UK.

**Bahrain:** Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Bank under this scheme.

**UK:** Customers' deposits in AUBUK are covered under the Financial Services Compensation Scheme, up to a limit of GBP 85,000 per customer. No up-front contribution is currently mandated under this scheme and no liability is due unless any member bank of the scheme is unable to meet its depository obligations.

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40 ISLAMIC BANKING AND INSURANCE ACTIVITIES

The Group's Shari'a compliant Islamic banking and insurance activities are offered through its Islamic Banking subsidiary AUBK, Takaful Islamic Insurance subsidiary of AHL, Islamic Banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain and AUBUK. The results of its Islamic Banking and insurance activities are presented below.

BALANCE SHEET AS AT 31 DECEMBER	Note	2019 US\$ '000	2018 US\$ '000
<b>ASSETS</b>			
Cash and balances with central banks		348,484	210,318
Deposits with central banks		1,137,879	1,140,184
Deposits with banks	(a)	1,317,839	1,040,463
Receivable balances from Islamic financing	(b)	12,255,286	11,144,184
Financial investments		1,558,585	1,159,007
Investment in associates		35,370	38,057
Investment properties		96,452	120,374
Profit receivable and other assets		116,645	50,521
Premises and equipment		135,533	113,477
<b>TOTAL ASSETS</b>		<b>17,002,073</b>	<b>15,016,585</b>
<b>LIABILITIES</b>			
Deposits from banks	(c)	2,715,320	2,348,533
Customers' deposits	(d)	11,186,926	9,840,762
Profit payable and other liabilities		382,189	258,998
Restricted investment		48,854	6,750
		14,333,289	12,455,043
<b>EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<b>574,597</b>	<b>671,231</b>
<b>TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<b>14,907,886</b>	<b>13,126,274</b>
<b>TOTAL EQUITY</b>		<b>2,094,187</b>	<b>1,890,311</b>
<b>TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY</b>		<b>17,002,073</b>	<b>15,016,585</b>

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40 ISLAMIC BANKING (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER		2019	2018
	<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from Islamic financing	(e)	407,469	434,048
		<u>407,469</u>	<u>434,048</u>
Fees and commissions		45,145	41,477
Other operating income		38,411	30,242
Foreign exchange gains		10,310	10,961
<b>OPERATING INCOME</b>		<u>501,335</u>	<u>516,728</u>
Provision for financing receivables and others		33,772	98,750
<b>NET OPERATING INCOME</b>		<u>467,563</u>	<u>417,978</u>
Staff costs		78,531	74,391
Depreciation		18,313	9,859
Other operating expenses		44,175	47,027
<b>OPERATING EXPENSES</b>		<u>141,019</u>	<u>131,277</u>
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<u>326,544</u>	<u>286,701</u>
Tax expense and zakat		9,416	7,707
<b>PROFIT FOR THE YEAR BEFORE THE SHARE OF PROFIT EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS</b>		<u>317,128</u>	<u>278,994</u>
Less: Share of profit of equity of unrestricted investment account holders		13,704	13,248
<b>NET PROFIT FOR THE YEAR</b>		<u>303,424</u>	<u>265,746</u>
<i>Attributable to:</i>			
Owners of the Bank		257,116	224,164
Non-controlling interests		46,308	41,582
		<u>303,424</u>	<u>265,746</u>
<i>Notes</i>			
		<i>2019</i>	<i>2018</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
(a) Deposits with banks			
Murabaha finance with other banks		719,735	695,451
Wakala with banks		503,339	299,758
Current accounts and others		94,765	45,254
		<u>1,317,839</u>	<u>1,040,463</u>

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40 ISLAMIC BANKING (continued)

Notes (continued)

	2019	2018
	US\$ '000	US\$ '000
<b>(b) Receivable balances from Islamic financing</b>		
Tawarruq receivables	7,628,157	7,046,623
Murabaha receivables	3,194,888	3,107,381
Ijara receivables	1,768,191	1,419,050
Others	28,588	32,700
Less: Allowance for impairment	(364,538)	(461,570)
	<b>12,255,286</b>	<b>11,144,184</b>
	2019	2018
	US\$ '000	US\$ '000
<b>(c) Deposits from banks</b>		
Murabaha	1,430,159	1,952,480
Wakala	1,277,834	389,003
Current accounts	7,327	7,050
	<b>2,715,320</b>	<b>2,348,533</b>
	2019	2018
	US\$ '000	US\$ '000
<b>(d) Customers' deposits</b>		
Wakala	7,369,709	6,573,070
Murabaha	2,649,678	2,069,522
Current accounts	1,167,539	1,198,170
	<b>11,186,926</b>	<b>9,840,762</b>
	2019	2018
	US\$ '000	US\$ '000
<b>(e) Net income from Islamic financing</b>		
Income from Tawarruq	325,972	300,575
Income from Murabaha	260,526	194,987
Income from Ijara	89,807	87,903
Income from financial investments	58,166	82,682
Income from Islamic financing	<b>734,471</b>	<b>666,147</b>
Profit expense on Wakala	193,856	113,130
Profit expense on Murabaha	48,272	86,290
Profit expense on Mudaraba	84,874	32,679
Less: Distribution to depositors	<b>327,002</b>	<b>232,099</b>
Net income from Islamic financing	<b>407,469</b>	<b>434,048</b>

41 SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	Incorporated in	2019	2018
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	25.1%	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	14.5%	14.5%

Ahli United Bank B.S.C.

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41 SUBSIDIARIES (continued)

	2019	2018
	US\$ '000	US\$ '000
<b>Accumulated material non-controlling interests as at:</b>		
Ahli United Bank K.S.C.P.	370,806	348,740
Ahli United Bank (Egypt) S.A.E.	68,004	54,509
<b>Profit allocated to material non-controlling interests:</b>		
Ahli United Bank K.S.C.P.	46,308	41,582
Ahli United Bank (Egypt) S.A.E.	10,636	10,951

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

	2019	2018
	US\$ '000	US\$ '000
<b>Ahli United Bank K.S.C.P. (AUBK)</b>		
<i>Balance sheet related information</i>		
Loans and advances	9,954,936	9,184,017
Non-trading investments	1,000,622	870,332
Total assets	14,352,392	12,853,150
Customers' deposits	11,251,727	10,280,576
Total liabilities	12,649,176	11,234,268
<i>Income statement related information</i>		
Total operating income	352,915	401,327
Net profit attributable to shareholders	181,107	169,630
Total comprehensive income attributable to shareholders	179,880	166,973
Dividends paid to non-controlling interest	21,913	18,347
<i>Cash flow related information</i>		
Net cash from operating activities	578,332	273,467
Net cash used in investing activities	(56,715)	(144,935)
Net cash used in financing activities	(98,387)	(83,493)
<b>Ahli United Bank (Egypt) S.A.E. (AUBE)</b>		
<i>Balance sheet related information</i>		
Loans and advances	1,637,102	1,282,682
Non-trading investments	567,191	497,838
Total assets	2,947,865	2,875,519
Customers' deposits	2,327,950	2,374,326
Total liabilities	2,470,232	2,481,171
<i>Income statement related information</i>		
Total operating income	128,749	141,178
Net profit attributable to shareholders	78,484	82,055
Total comprehensive income attributable to shareholders	93,679	63,274
Dividends paid to non-controlling interests	5,952	3,945
<i>Cash flow related information</i>		
Net cash (used in) from operating activities	(504,353)	465,115
Net cash used in investing activities	(5,483)	(51,277)
Net cash used in financing activities	(49,318)	(32,343)

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**42 SUBSEQUENT EVENT**

Pursuant to the Memorandum of Understanding and Confidentiality of Information executed between the Bank and Kuwait Finance House K.S.C.P. (KFH) in terms of a potential acquisition of the Bank by KFH to create a major regional banking institution, the conclusion of due diligence and valuation reports by specialist professional advisors and due consideration thereof, the AUB Board of Directors on 12 September 2019 approved a share exchange ratio of 2.325581 AUB shares for each KFH share. The KFH AGM/EGM held on 20 January 2020 approved the pursuit of the acquisition of AUB at the indicative share swap ratio. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer amongst other conditions.

In this regard, as of date, KFH has announced a firm intention to make a voluntary conditional offer to acquire 100% of the issued and paid up shares of the bank by way of a share swap at the above exchange ratio. The proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals.